



SUBARU

Annual Report 2017



For the year ended March 31, 2017



From a company making things, to a company making people smile.

Just a glance at our vehicles and you can imagine days filled with excitement.

Just a glimpse of jet wings above and you can envision worlds yet unseen.

But no matter the time or place, we are always by our customers' sides.

What is important is not how many cars we make, but how many smiles we can create.

More than a century has passed since the founding of Aircraft Research Laboratory, the forerunner of SUBARU. Now, Fuji Heavy Industries Ltd. has been reborn as SUBARU CORPORATION.

From making things to delivering value that shines in people's hearts, SUBARU aims to touch the hearts of people and bring smiles to their faces.

We constantly challenge ourselves to ensure that satisfaction with SUBARU is reflected in the happy faces of our customers.





SUBARU

Not big in size, but a high-quality with distinctive strengths

For SUBARU, by no means a large automaker, the two strategies of uncompromising differentiation and added-value are essential for achieving sustained growth in a fierce competitive environment. We will narrow our focus to categories and markets in which we can leverage our strengths, practice selection and concentration in allocation of limited management resources, and further accelerate two initiatives: enhancing the SUBARU brand and building a strong business structure. And, we will seek to have a prominent presence in customers' minds.

Scale expansion is not a primary objective

Rather than make sales volume expansion an objective, SUBARU aims to steadily increase unit sales as a result of adhering to a highly profitable business model.

Focusing on categories and markets in which we can leverage our strengths

Rather than doing business in all markets with a full model lineup, we will specialize in and focus our limited management resources on categories and markets in which we can leverage our strengths. As a result, in business development, our product focus is mainly on SUVs, and the market focus is on the U.S. and other developed countries in mature stages of motorization.



company

Achieving an industry-leading profit margin

While sales and profits are important, SUBARU is geared toward management that emphasizes a high operating margin. We will seek to achieve an industry-leading profit margin while continuing to invest in future sustained growth.



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Disclaimer Regarding Forward-Looking Statements

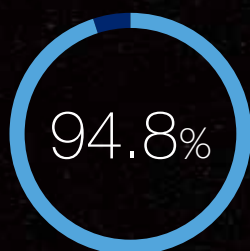
Statements herein concerning plans and strategies, expectations or projections about the future, SUBARU's efforts with regard to various management issues, and other statements, except for historical facts, are forward-looking statements. These forward-looking statements are subject to uncertainties that could cause actual results to differ materially from those anticipated. These uncertainties include, but are not limited to, general economic conditions, demand for and prices of SUBARU's products, SUBARU's ability to continue to develop and market advanced products, raw material prices, and currency exchange rates. SUBARU disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

Business Overview

Automotive Business Unit

SUBARU continues to develop cars that promise total driving enjoyment and safety for all passengers.

The launch of the SUBARU 360 in 1958 marked SUBARU's start as an automaker. Ever since, we have contributed to the development of Japan's automotive industry by creating a succession of distinctive cars equipped with creative technologies such as the horizontally opposed engine and Symmetrical All-Wheel Drive. We continue to take on new challenges in order to provide all of our customers with "Enjoyment and Peace of Mind." For example, we continue to evolve the EyeSight driver assist system, have improved safety performance and driving performance by adopting the SUBARU Global Platform, our next-generation vehicle platform, and were the first Japanese automaker to use a pedestrian protection airbag.



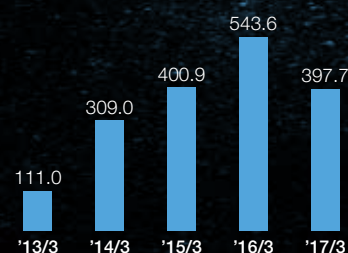
Consolidated net sales contribution ratio of the Automotive Business Unit



Net Sales (Billions of yen)



Operating Income (Billions of yen)

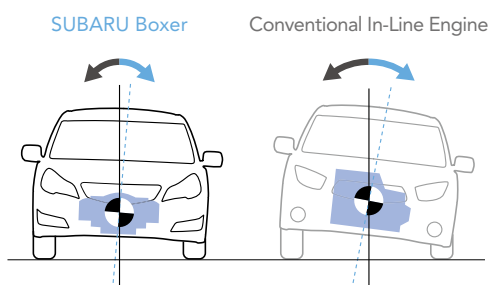


SUBARU Proprietary Technologies

Horizontally opposed engine (Boxer engine)

Lightweight, compact, low center of gravity

The horizontally opposed engine is an ideal power unit that SUBARU has relied on for more than half a century. Called the "Boxer engine" because the horizontal movement of the pistons arranged symmetrically left and right along the crankshaft



resembles the movement of a boxer's fists, this engine is renowned for its excellent rotation balance and contributes to low vehicle center of gravity because of its low height, light weight, and compact design.

Symmetrical All-Wheel Drive (AWD)

Superior longitudinal-transverse weight balance

The low center of gravity provided by the horizontally opposed engine and superior longitudinal-transverse weight balance achieved by placing the transmission near the center of the vehicle combine to maximize all-wheel drive capability and deliver superb driving performance in various conditions. SUBARU has long relied on Symmetrical AWD as a core technology that drivers can depend on in every situation from day-to-day town use to high-speed highway driving.

Product Lineup

Legacy Series

LEGACY



OUTBACK



Consolidated unit sales: 344,000 units

Available markets: Japan, North America, Russia, Europe, Australia, China, Other

FORESTER



Consolidated unit sales: 297,000 units

Available markets: Japan, North America, Russia, Europe, Australia, China, Other

WRX



Consolidated unit sales: 54,000 units

Available markets: Japan, North America, Russia, Europe, Australia, Other

Impreza Series

IMPREZA



(SEDAN)



(5 Door)

SUBARU XV



Consolidated unit sales: 290,000 units

Available markets: Japan, North America, Russia, Europe, Australia, China, Other

LEVORG



Consolidated unit sales: 31,000 units

Available markets: Japan, Europe, Australia, Other

SUBARU BRZ



Consolidated unit sales: 9,000 units

Available markets: Japan, North America, Europe, Australia, China, Other

EXIGA



Consolidated unit sales: 4,000 units

Available markets: Japan

OEM Models

JUSTY



DIAS WAGON



STELLA



PLEO



SAMBAR



Consolidated unit sales: 32,000 units

Available markets: Japan

(OEM supply from Daihatsu Motor Co., Ltd.)

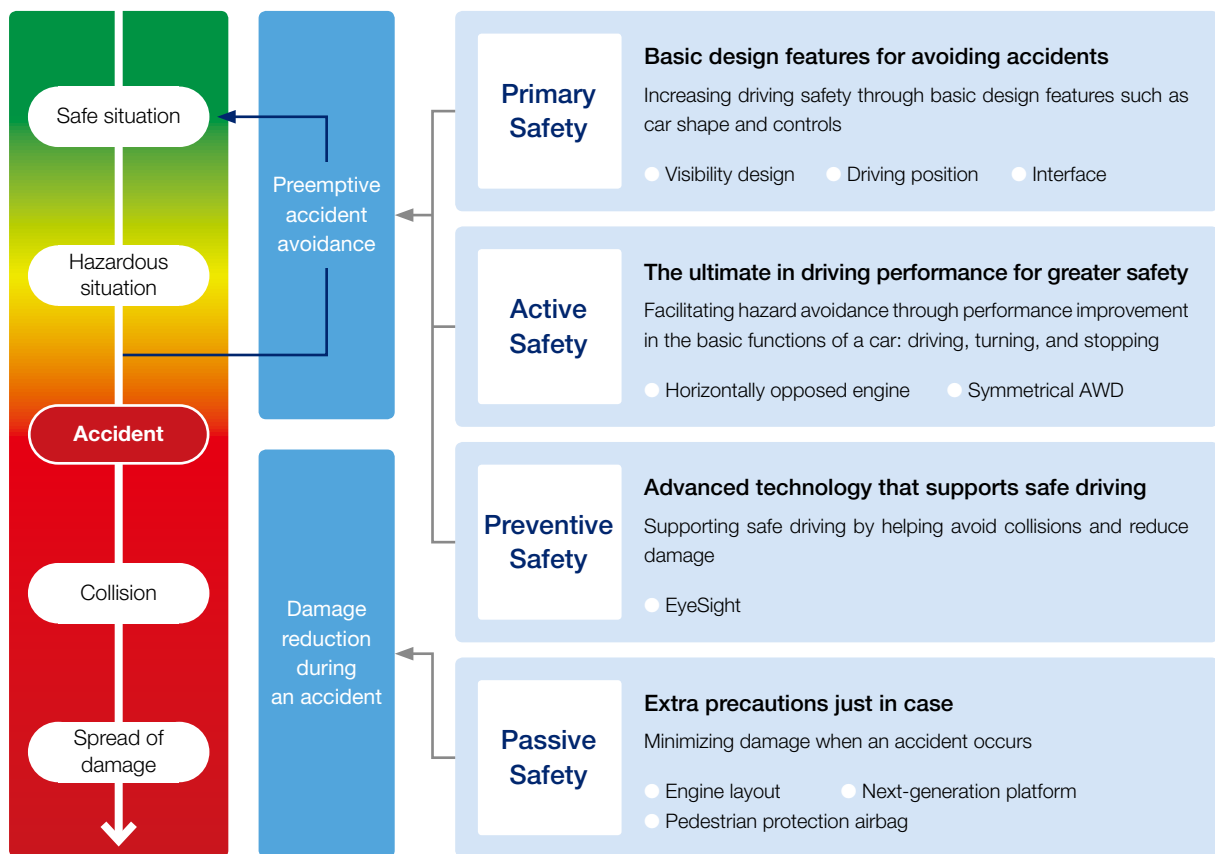
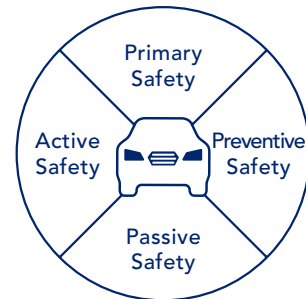
*Period: April 1, 2016 to March 31, 2017

Automotive Business Unit

Focusing on safety to deliver the world’s highest level of peace of mind and safety to customers.

Under the concept of all-around safety, meaning the pursuit of automobile safety performance from every perspective, SUBARU defines safety in automobile manufacturing using four criteria: primary safety, active safety, preventive safety, and passive safety.

SUBARU All-Around Safety



Safety Performance Recognized Worldwide

SUBARU undergoes safety performance testing and assessment conducted by the New Car Assessment Program (NCAP) in Japan, the U.S., Europe, and Australia, the Insurance Institute for Highway Safety (IIHS) in the U.S., and other public agencies in Japan and overseas and has received the highest ranking in many tests and assessments*.

In Japan, the Impreza and SUBARU XV received the 2016–2017 Grand Prix Award for earning the highest safety score ever in the Japan New Car Assessment Program (JNCAP) crash safety evaluation tests. In addition, all models equipped with EyeSight received the top rating of Advanced Safety Vehicle ++ (ASV ++).

*Please refer to evaluation organization websites for assessment details.

What is EyeSight?

EyeSight is a driver assist system that applies advanced technology. It controls alerts, braking, and steering in accordance with the vehicle's driving situation to help avoid accidents, reduce damage, and alleviate driver burden. We currently offer EyeSight mainly in Japan, North America, Europe, Australia, and China and plan to offer it globally.



Why Use Stereo Cameras?

The use of two cameras positioned to the left and right, like human eyes, enables simultaneous three-dimensional recognition of multiple cars, motorcycles, bicycles, pedestrians, and other objects within the field of vision. A key feature of EyeSight is that it is capable of accurately recognizing the distance, shape, and speed of movement of objects. Although most automakers use radar or a combination of radar and a camera as sensors to detect lead vehicles, pedestrians, and other potential hazards, EyeSight uses only stereo cameras. The high recognition performance of stereo cameras, continuously perfected over many years, is an advantage unavailable from other automakers.



Stereo cameras

Stereo camera simulated image

History of Driver Assist System Development

The development of stereo cameras, the core of the EyeSight system, began in 1989 based on a concept of safety technology that was bold and futuristic at a time when the need for advanced safety technology wasn't widely understood. Subsequently, as a result of persistent, dedicated research, in 2008 SUBARU introduced EyeSight, which realized the world's first pre-collision braking function using stereo cameras only. SUBARU's safety performance, which captures top-class ratings in safety performance testing and assessments around the world and has won high acclaim from countless customers, is underpinned by reliable technologies and a wealth of experience cultivated over many years.

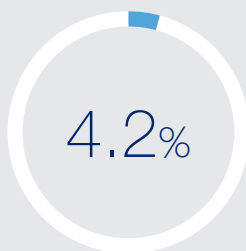
- 1989 Start of system development
- 1999 **World's first** Market introduction of Active Driving Assist (ADA), the forerunner of EyeSight
Installation of the world's first driver assist system using stereo cameras on production cars
- 2008 **World's first** EyeSight released
Commercialization of the world's first pre-collision braking control function using stereo cameras only
- 2010 Release of EyeSight (ver. 2)
- 2014 Release of EyeSight (ver. 3)
- 2017 Addition of the Touring Assist function

Business Overview

Aerospace Company

Leveraging tradition and innovative technologies to develop and produce a wide variety of aircraft.

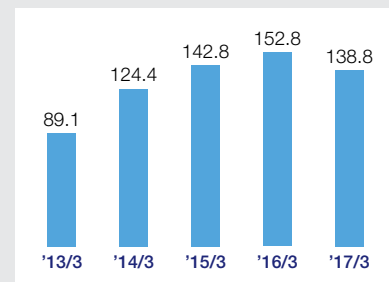
SUBARU traces its roots back to Aircraft Research Laboratory, established in 1917 and later to become Nakajima Aircraft. The Aerospace Company, inheriting Nakajima Aircraft's aircraft manufacturing technologies and spirit, leads Japan's aerospace industry and has a strong track record in developing and producing a wide variety of aircraft. We mainly develop and produce center wing boxes, which require high precision and advanced assembly technology to support the main wings and fuselage at the center of aircraft. On the basis of unique and advanced technologies cultivated over the years, we aim to develop into an aircraft manufacturer with a global presence and will actively take on challenges in new fields.



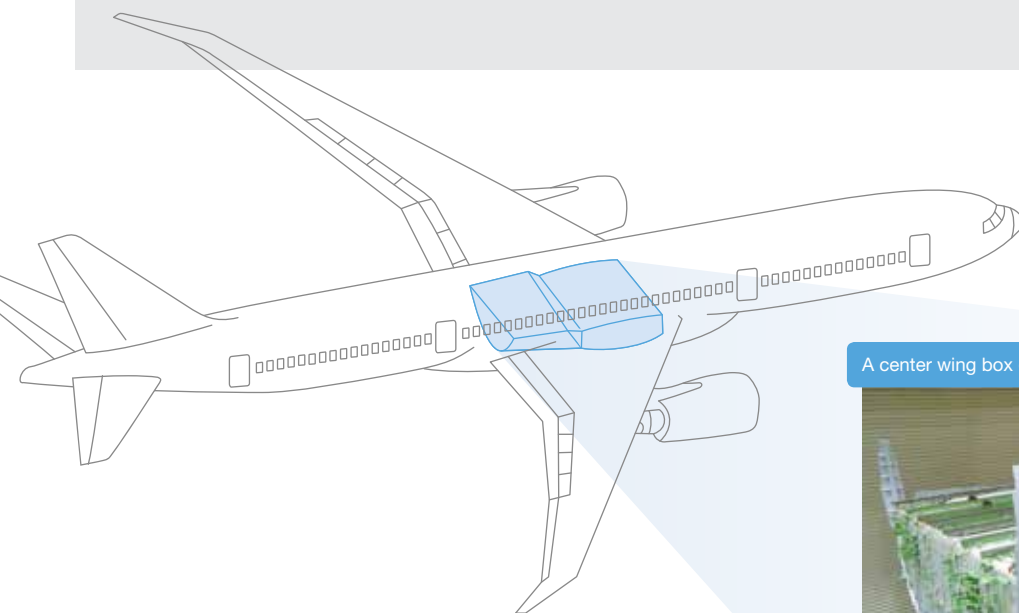
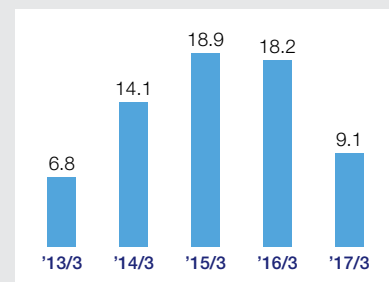
Consolidated net sales contribution ratio of the Aerospace Company



Net Sales (Billions of yen)



Operating Income (Billions of yen)



A center wing box (Handa Plant)



SUBARU Main Business Sites

Main Overseas Business Sites



- ① SUBARU Europe N.V./S.A.
- ② SUBARU Italia S.p.A.
- ③ N.V. SUBARU Benelux
- ④ SUBARU Vehicle Distribution B.V.
- ⑤ SUBARU of China Ltd.
- ⑥ SUBARU Technology Beijing Co. Ltd.

- ⑦ SUBARU of America, Inc.
- ⑧ North American SUBARU Inc.
- ⑨ SUBARU Research & Development, Inc.
- ⑩ SUBARU of Indiana Automotive, Inc.
- ⑪ SUBARU Canada, Inc.
- ⑫ SUBARU Asia PTE. LTD.

Main production models: Legacy, Outback, Impreza

Main Domestic Business Sites

- ① Head Office

Gunma Manufacturing Division

- ② Gunma Manufacturing Division

Main Plant

Main production models: Levorg, Impreza, SUBARU XV, WRX, SUBARU BRZ

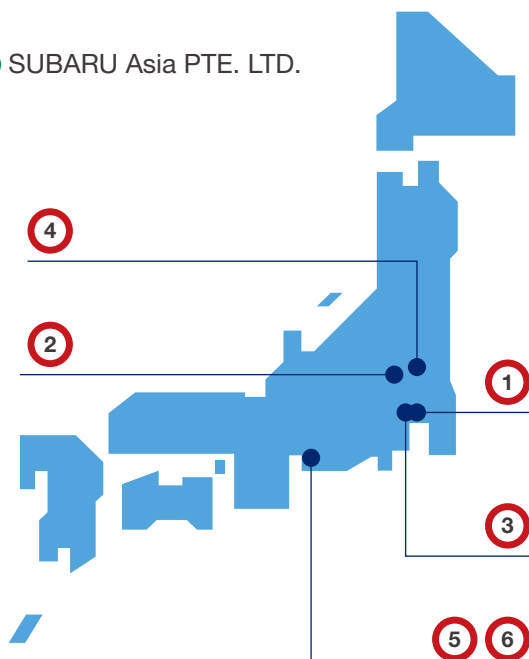
Yajima Plant

Main production models: Legacy, Outback, Impreza, SUBARU XV, Forester, Exiga

Oizumi Plant

Main production items: automobile engines and transmissions

- ③ Tokyo Office



Aerospace Company

- ④ Utsunomiya Plant
- ⑤ Handa Plant
- ⑥ Handa West Plant

History

History of the SUBARU Group

SUBARU, which can trace some of its roots to Aircraft Research Laboratory, has continuously nurtured highly creative technologies and increased corporate value by pursuing business alliances to respond to major changes in the times. Here we outline the history of the SUBARU Group to date.

1917	Establishment of Aircraft Research Laboratory
1931	Establishment of Nakajima Aircraft Co., Ltd.
1945	Change of company name from Nakajima Aircraft to Fuji Sangyo

1946 Production of the first Rabbit Scooter














1968	Signing of a business alliance agreement with Nissan Motor Co., Ltd.
1968	Start of exports of Robin engines for snowmobiles to Polaris (USA)
1969	Start of operation of the Yajima Plant
1972	Release of the Leone 4WD Estate Van
1978	Conclusion of a 767 business agreement with Boeing
1983	Start of full-scale operation of the Oizumi Plant
1987	Release of a Justy model equipped with the world's first electro-continuously variable transmission (ECVT)
1987	Establishment of SUBARU-Isuzu Automotive, Inc. (SIA) in the U.S. in a joint venture with Isuzu Motors Ltd.
1989	Establishment of SUBARU Canada, Inc. (SCI)
1989	Completion of SUBARU Research & Testing Center (SKC)
1990	SUBARU of America (SOA) made a wholly owned subsidiary
1991	Participation in the Boeing 777 program

1953	Establishment of Fuji Heavy Industries Ltd. Start of aircraft production and automobile development
1960	Opening of the Gunma Main Plant
1960	Listing of shares on the Tokyo Stock Exchange
1966	Signing of a business alliance agreement with Isuzu Motors Ltd.
1968	Establishment of SUBARU of America (SOA)
1968	Dissolution of the business alliance with Isuzu Motors Ltd.

SUBARU Models through the Years



1958		1966		1972		1984	
	SUBARU 360 released		SUBARU 1000 four-door sedan released		Rex released		Justy released
1961		1969		1977		1985	
	SUBARU Sambar truck released		R-2 released		Brat released		Alcyone released
1961		1971		1983		1989	
			Leone coupe released		Domingo released		Legacy series released



Origin of the SUBARU Name and Logo

“SUBARU” is Japanese for the Pleiades star cluster in the constellation Taurus. These stars are also known as “six-star group.” The name reflects the fact that Fuji Heavy Industries was formed from capital contributions from five companies that sprang from Nakajima Aircraft.

1993	Start of operation of the Handa Plant
1998	SIA is first automobile assembly plant in the U.S. to obtain ISO 14001 certification
1999	Capital and business alliance with General Motors Corporation (GM) (USA)
1999	Business alliance with Suzuki Motor Corporation
2000	Dissolution of the business alliance with Nissan Motor Co., Ltd.
2001	Zero emissions achieved at the automobile manufacturing division (Gunma Manufacturing Division)
2001	Zero emissions achieved at the Utsunomiya Manufacturing Division, Utsunomiya Plant, and Saitama Plant
2002	Dissolution of the SIA joint venture with Isuzu and formal signing of a contract production agreement
2003	Legacy wins the Car of the Year Japan award
2003	Receipt of Boeing Supplier of the Year award (Major Structures category)
2003	SUBARU of Indiana Automotive, Inc. (SIA) made a wholly owned subsidiary
2005	Participation in the Boeing 787 program Delivery of main wings for next-generation transport aircraft and next-generation fixed-wing patrol aircraft

2005	Dissolution of the alliance with GM, agreement to enter into a business alliance with Toyota Motor Corporation
2007	Start of production of Toyota cars (Camry) at SIA
2010	Development of an EyeSight advanced driver assist system with greatly expanded range of driver assistance
2012	Receipt of Boeing Supplier of the Year award (Pathfinder category)
2012	Start of knockdown production of the SUBARU XV in Malaysia
2012	SIA becomes the first automobile production plant in the U.S. to obtain ISO 50001 certification
2012	Termination of production of mini-vehicles and shift to marketing on an OEM basis
2014	Signing of an agreement to participate in a project to develop and mass produce the Boeing 777X
2015	Cumulative production of 15 million horizontally opposed engines
2015	Formulation of the Corporate Governance Guidelines
2016	Cumulative production of 15 million AWD vehicles
2016	Termination of contract production of the Toyota Camry at SIA

1992



Vivio released

1998



Pleo released

1992



Impreza series released

2003



Outback released

1997



Forester released

2005



B9 Tribeca released

2008



Exiga released

2012



SUBARU BRZ released

2012



SUBARU XV released

2014



Levorg released

2014



WRX released

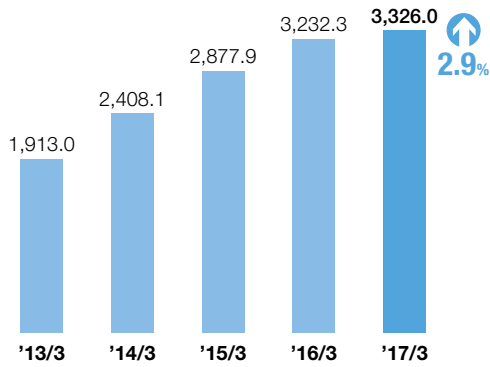


Financial and Non-Financial Highlights

Financial Highlights

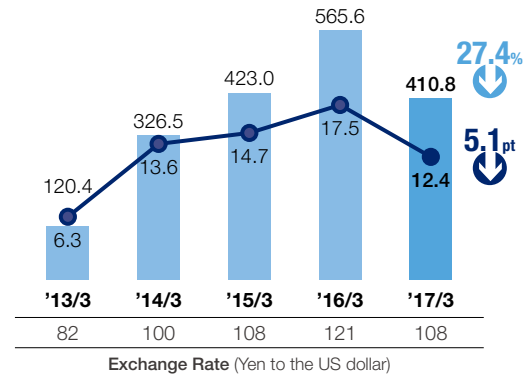
SUBARU CORPORATION and its consolidated subsidiaries

Net Sales (Billions of yen)



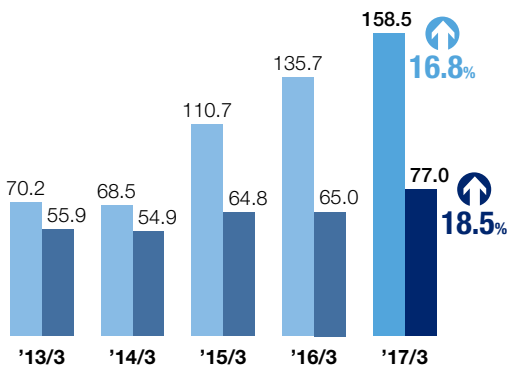
Operating Income (Billions of yen)

Operating Margin (%)

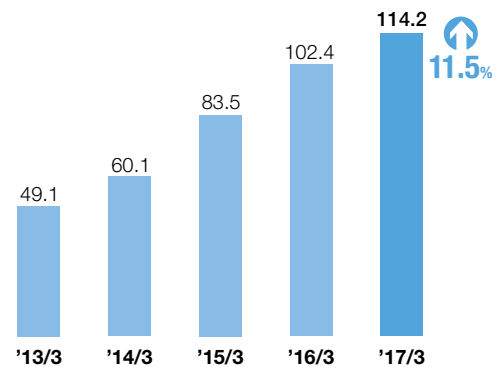


Capital Expenditures (Billions of yen)

Depreciation Expenses (Billions of yen)



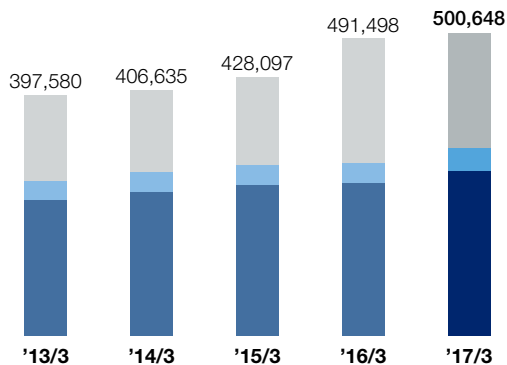
R&D Expenses (Billions of yen)



Non-Financial Highlights

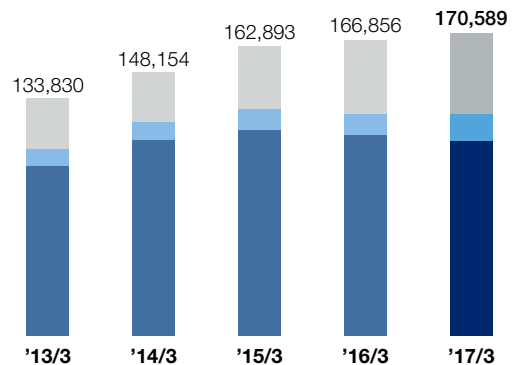
CO₂ Emissions (Tons of CO₂)

Overseas Group companies
Domestic Group companies
SUBARU

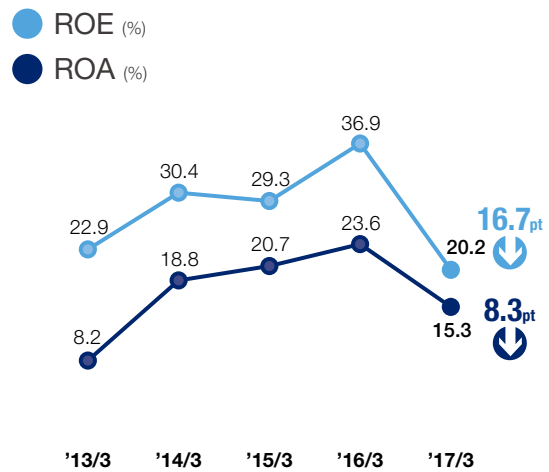
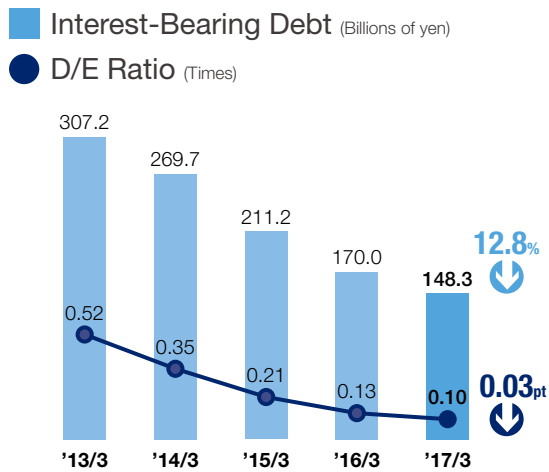


Waste Generation (Tons)

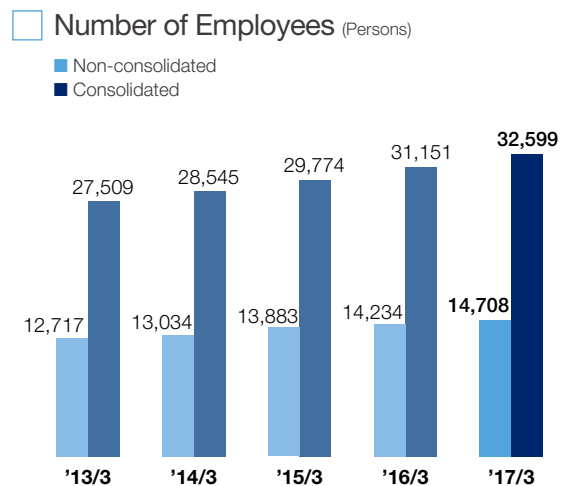
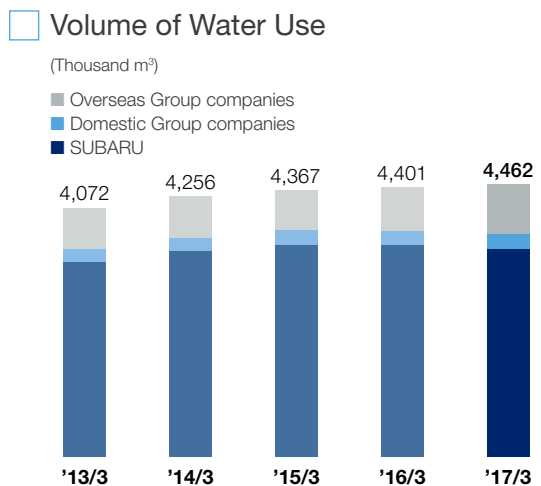
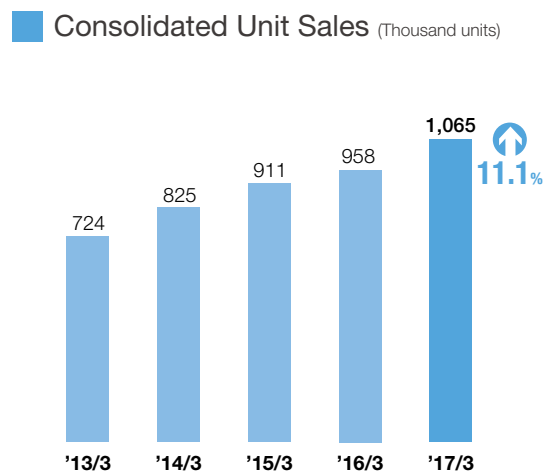
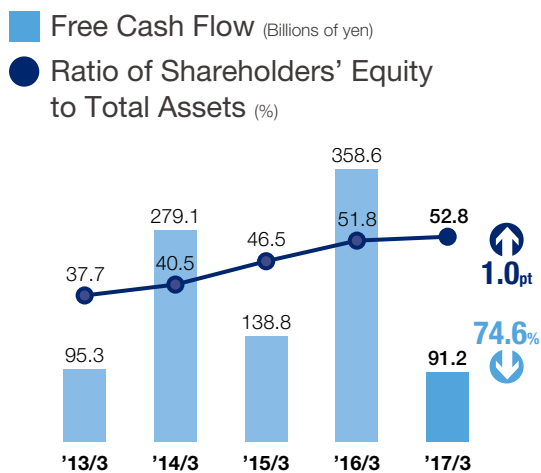
Overseas Group companies
Domestic Group companies
SUBARU




* Includes scrap metal sold



* ROA = Operating income / Total assets
(average at the beginning and end of the term)



*Excluding executive officers, advisors and dispatches



**Enhancing the SUBARU brand:
“From a company making
things, to a company making
people smile.”**

Yasuyuki Yoshinaga

Representative Director of the Board, President and CEO

1. The Transformation to SUBARU CORPORATION

Although SUBARU's consolidated automobile unit sales were in the 500,000 to 700,000 range until a few years ago, thanks to the loyal support of customers around the world, they passed the one million milestone for the first time in the FYE March 2017, reaching 1.065 million units. Although this is a highly gratifying achievement, SUBARU's global market share in the automotive industry is a mere 1%. Even if we wanted to compete using the same management strategies as the major automakers, we would be no match for them due to business scale. I believe that the only path to survival for SUBARU is to practice selection and concentration of limited management resources, create added value that customers find appealing, and exhaustively pursue differentiation. We express these strategic imperatives using the phrase "Enhancing the SUBARU brand."

In "Prominence 2020," the mid-term management vision announced in 2014, we articulated the objective of doing everything possible to promote differentiation and enhance the SUBARU brand. The recent unification of the company name and its brand name is one such initiative and a declaration of our resolve to showcase SUBARU as a brand that truly stands out and shines. To achieve this, all employees of the SUBARU Group will constantly consider what constitutes value to our customers as they provide products and services. When customers are satisfied, we know it from their smiling faces. All Group employees will work in unison to transform SUBARU from a company making things, to a company making people smile.

2. The Pursuit of "Enjoyment and Peace of Mind"

What is SUBARU? In the pursuit of differentiation from competitors, we asked ourselves this question while reconsidering and discussing everything pertaining to SUBARU. The answer we finally arrived at is that SUBARU has its roots as an aircraft manufacturer. The most important thing in aircraft development is safety. The safety performance and technology standards required to guard against possible aviation accidents are extremely high, and safety is a given. This way of thinking has been handed down and imbues automobile development at SUBARU. We realized that the carrying on of the spirit and technologies of the aircraft business and the consistent pursuit of superior safety, superb driving performance, and functional packaging at all times is encoded in SUBARU's DNA. Also, thinking that SUBARU can establish a prominent presence in the minds of customers when they are able to experience SUBARU's quintessential "Enjoyment and Peace of Mind," we defined "Enjoyment and Peace of Mind" as the core value SUBARU aspires to deliver to customers. We believe that peace of mind can exist only when there is trust in the SUBARU brand, not just safety, which is a functional attribute. Also, by enjoyment we mean not only the enjoyment of driving, but also the enjoyment of traveling by car and the enjoyment of a car lifestyle.

Today, SUBARU receives top-class ratings in safety evaluations performed by third-party organizations around the world. In the U.S., all SUBARU models equipped with EyeSight technology received the Top Safety Pick award in the 2016 safety ratings of the Insurance Institute for Highway Safety (IIHS), a nonprofit insurance industry organization.

Although in the past many people chose SUBARU cars because of our unique horizontally opposed engine and symmetrical AWD technologies, in recent years SUBARU has come to be strongly associated with safety, especially in the U.S. I think that for many customers, safety is a factor in SUBARU's popularity.

To further increase our world-class safety performance, last year we adopted the SUBARU Global Platform. By completely revamping the vehicle platform, which is the basic frame of an automobile, we have realized significant evolutions in overall performance—including safety performance—that would not have been achievable through the simple extension of existing technologies.

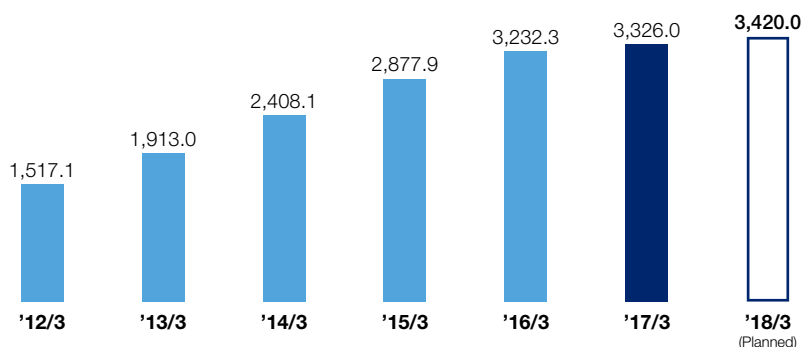
We plan to introduce a plug-in hybrid vehicle (PHEV) in 2018 and an electric vehicle (EV) in 2021. Although the power source may change from an engine to an electric motor, we will continue to provide cars that are distinctively SUBARU through the pursuit of "Enjoyment and Peace of Mind."

3. Changes in the Business Environment

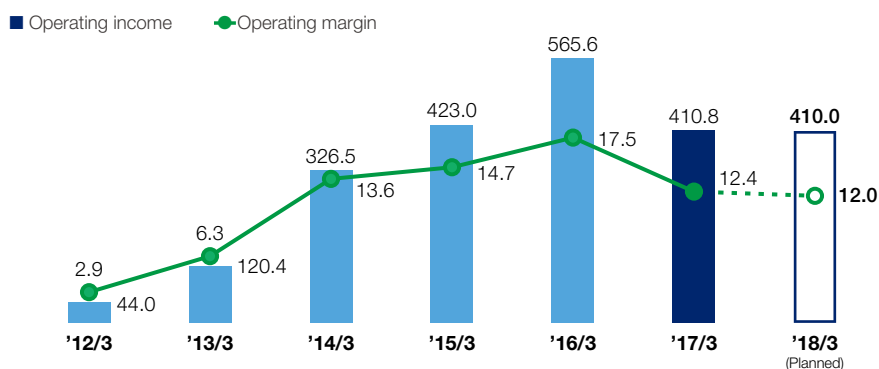
SUBARU has grown rapidly during the past few years. Consolidated sales volume has increased from some 600,000 vehicles to more than 1,000,000, and consolidated net sales have risen from 1.5 trillion yen to more than 3 trillion yen. Income has increased as well. We have been able to achieve extraordinarily high operating margins thanks to a confluence of positive factors: namely, substantial growth in sales volume, mainly in the U.S. market, alleviation of the fixed cost burden, extraordinarily low sales incentives against a backdrop of supply shortages, low depreciation and amortization expenses and R&D expenses, and the benefits of a weak yen. However, changes in the market environment and the increase in company size have led to tremendous changes in the business arena. To deal with a prolonged supply shortage, we substantially increased production capacity at SIA, our production base in the U.S., from 218,000 to 394,000 units under standard operations, and the burden of depreciation and other fixed costs is increasing. Also, we will make appropriate R&D expenditures to cope with new technologies that I discuss in detail below.

Although the automotive industry was previously an industry that saw little change from technological innovation, it has now entered a period of transformation. I consider the question of how to respond to a wave of technological innovations that has suddenly rolled over the industry, such as electrification, automated driving, connected car technology, and car sharing, to be a matter of urgent importance. Since our management resources are limited, unlike the major automakers, we cannot deal with all of these innovations simultaneously. We intend to address them in the following order of priority while taking advantage of alliances with other companies.

□ Net Sales (Billions of yen)



□ Operating Income (Billions of yen)/Operating Margin (%)



1) Electrification

Since environmental regulations in various countries will be further tightened, we will move forward with automobile electrification as our highest priority. In the U.S., a key market, the scope of the Zero Emission Vehicle (ZEV) Regulations will be expanded to include medium-size automakers, including SUBARU, in 2018. We plan to launch a plug-in hybrid electric vehicle (PHEV) to coincide with this regulatory change, and are developing the PHEV with technical assistance obtained under an alliance. We also plan to launch an electric vehicle (EV) in 2021. In this new era of electrification, we will develop an EV that provides the distinctive “Enjoyment and Peace of Mind” that people expect from SUBARU.

2) Automated driving (See page 32)

SUBARU’s approach to automated driving is to provide advanced driver assist technology that reduces the burden of driving, not driverless vehicles. We will press ahead with further evolution of EyeSight, our highly popular driver assist system, with the aim of achieving the ultimate in safety: the complete elimination of automobile accidents.

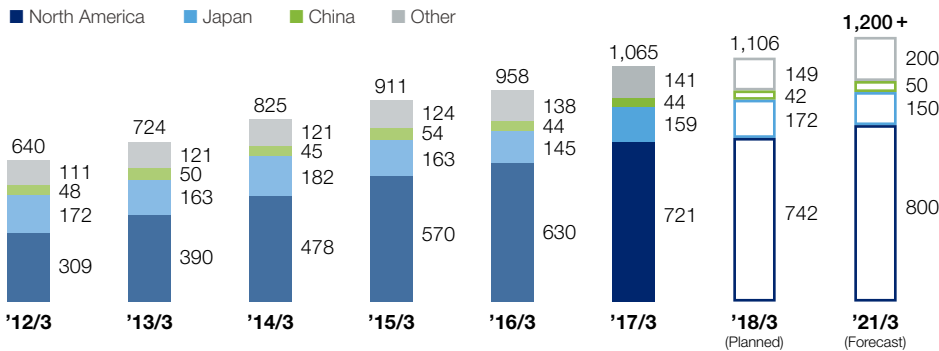
3) Connected car technology

To accelerate our initiatives in the field of connected car technology and meet customer needs, which will only continue to grow, we established the position of Chief Information Officer (CIO) and the IT Strategy Division in April 2017 and will accelerate planning and development.

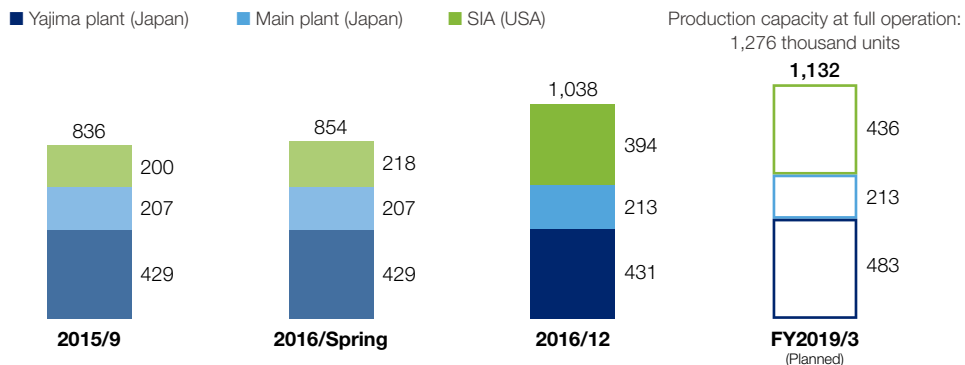
4) Car Sharing

In light of factors such as SUBARU’s sales volume, company size, and the preferences of our customers, we consider this a social innovation that will have little impact on our business. Accordingly, we will prioritize the initiatives described in 1) to 3) above.

Consolidated Unit Sales (Thousand units)



Production Capacity Expansion Plan (Thousand units)



*Production capacity under standard operations

Message from the CEO

4. Sales Trends in the U.S.

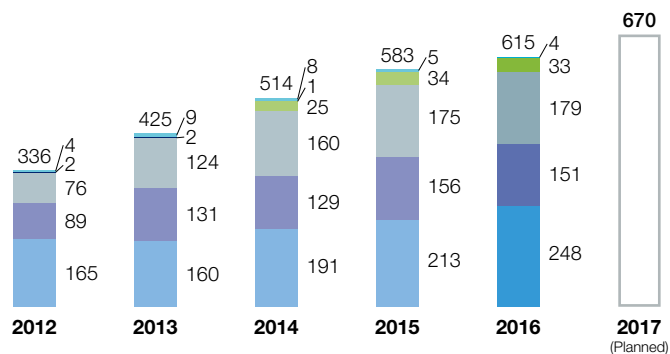
Although the U.S. auto sales market is said to have peaked, so long as total demand of about 17 million units does not markedly deteriorate, I think that SUBARU's current strong sales can be maintained into the future. We launched the all-new Impreza at the end of 2016 following a full model change. We plan to launch an all-new Crosstrek (called the SUBARU XV outside North America) in the summer of 2017, introduce the Ascent, a 3-row SUV for North America, in 2018, and implement full model changes of existing models. The Ascent, a vehicle that will complement the current model lineup, is being developed at the strong request of our U.S. dealers. By continuously introducing products that appeal to customers in this way, we will maintain sales momentum.

Automakers are taking measures in response to a slowdown in the U.S. market, such as increasing incentives, and sales competition has intensified. SUBARU forecasts, for accounting purposes, incentives of U.S. \$1,850 per vehicle, up \$400 year on year, for FYE March 2018. The reasons for the projected increase are strengthening of a portion of the sales financing program, a higher rate of program use, and cost increases accompanying a policy interest rate increase in the U.S. Although an increase in incentives puts downward pressure on profits, we will carefully watch the industry trend in order to maintain relative competitiveness.

We believe that opportunity awaits in the sunbelt (the southern U.S.). A breakdown of SUBARU's 3.5% total share of the U.S. market in calendar year 2016 indicates that our share was 5.0% in the snowbelt and 1.8% in the sunbelt. For this reason, we see room for sales growth in the southern part of the country. To achieve growth, we will not increase the number of dealers, but rather increase unit sales per dealer through service improvement and model lineup expansion (introduction of the Ascent).

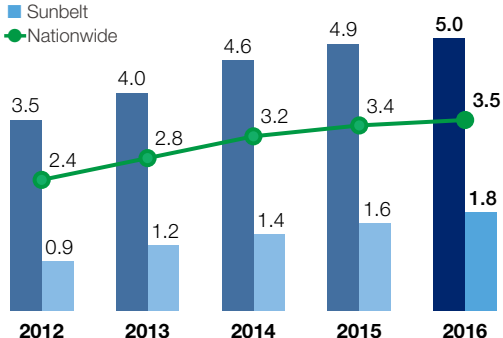
U.S. Retail Unit Sales (Thousand units)

(CY)



U.S. Market Share (%)

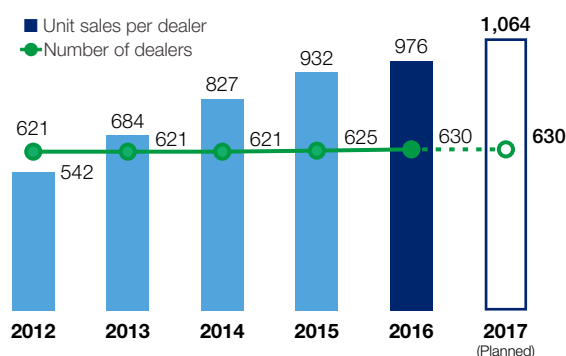
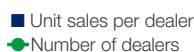
(CY)



Number of Dealers in the U.S. (Dealers)

Unit Sales per Dealer (Units)

(CY)



5. Sales Trends Outside the U.S.

Although we planned for sales growth in China and Russia in “Prominence 2020,” the mid-term management vision, we are currently facing difficulties in these markets.

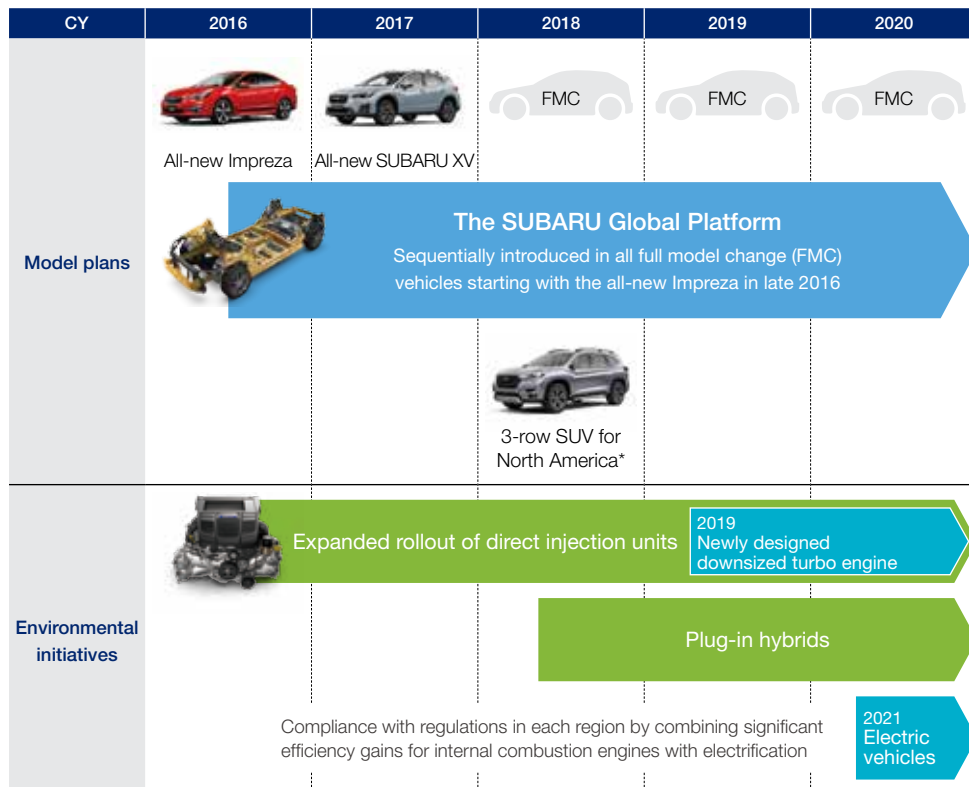
In China, oversupply in the market continues, and sales competition is intensifying. Since SUBARU doesn’t have a local production base, we’re not forced to sell cars to keep a plant operating. We intend to distance ourselves from price competition and carefully maintain our sales network by engaging in meticulous sales activities targeting customers who appreciate SUBARU’s added value.

Russia is a market where people have a natural affinity for SUBARU’s product characteristics, and we expect sales growth there in the future. However, since the current economic environment is unfavorable, including a weak ruble, we intend to wait for a recovery.

In Southeast Asia, in addition to knockdown production (local assembly) of the SUBARU XV and Forrester in Malaysia, we plan to start knockdown production in Thailand beginning in 2019.

Although this look at individual markets shows that our sales plan for China and Russia is behind schedule, we have not changed the FY 2020 consolidated unit sales forecast of upward of 1.2 million units announced in “Prominence 2020,” the mid-term management vision. Although, of course, it is important to achieve our sales and profit and loss plans, we will carefully adhere to our current business model and intensively focus on enhancing the SUBARU brand, placing the highest priority on paving the way to future success.

Product Strategy



*The photo shows the SUBARU Ascent SUV Concept

6. Strengthening Corporate Governance

Effective April 1, 2017, SUBARU established the Corporate Administration Division to strengthen the business management system and business supervision function and established the positions of Chief Quality Officer (CQO), Chief Technology Officer (CTO), and Chief Information Officer (CIO). The CQO position was established for the purpose of promptly resolving quality-related issues and further increasing product quality and customer-service quality. The purpose of the CTO position is to respond to new technologies in the automotive industry, which is now in a period of transformation, and the purpose of the CIO position is to accelerate business process innovation and improvement as well as digital-related planning and development in the automotive business utilizing IT.

Following approval at the Ordinary General Meeting of Shareholders of June 23, 2017, the Company changed the Board of Directors structure and revised the compensation structure for directors. The purpose of the change in the Board structure was to strengthen the oversight function and increase the speed of business execution by separating corporate management and business execution. Following a review of executive remuneration, we introduced a share-based compensation plan with transfer restrictions. The purpose of the revision of the compensation structure for directors was to provide an incentive to eligible directors to achieve sustained improvement in corporate value and to promote sharing of value between eligible directors and the shareholders.

7. Strengthening of CSR Initiatives

At SUBARU, we believe that actively working toward and contributing to the sustainability of society in the pursuit of sustained growth is our corporate social responsibility (CSR). To more clearly express the aspirations of the SUBARU Group and our efforts to contribute to the environment and communities, on April 1, 2017, we established the CSR & Environment Department and revised the SUBARU Environmental Policies. In the Environmental Policies, we define the business fields of SUBARU, a company whose core businesses are automobiles and aerospace, as “The earth, the sky and nature.” We consider protecting the environment of the Earth a matter of the utmost importance for ensuring a sustainable future for society and SUBARU and strive to protect the environment in all business activities. As president, I intend to further promote SUBARU’s CSR activities and work to protect the global environment and contribute to local communities.

Messages from the CQO, CTO, and CIO

CQO (Chief Quality Officer)

Jun Kondo

Director of the Board
Chairman



For SUBARU, a company that provides “Enjoyment and Peace of Mind” to customers, quality is intrinsic to brand value. I think that boosting not only product quality, but also customer service quality and the quality of corporate activities themselves is important for making SUBARU a brand that delivers genuine value to customers. First of all, we will review every aspect of our manufacturing processes, right down to the current state of quality assurance for each individual part. In new car development, we will reinforce measures to prevent reoccurrence of past defects and strengthen the development step verification process. In this way, we will work to further improve product quality and, in particular, eliminate defects that lead to recalls and service campaigns. We will also strive to increase customer satisfaction by undertaking call center expansion, smooth provision of replacement parts, and efficiency improvement in service operations at sales agents/dealers. We will aim for world-class quality, and all Group employees will improve the business structure until passion for quality becomes a hallmark of SUBARU’s DNA.

CTO (Chief Technology Officer)

Takeshi Tachimori

Representative Director of the Board
Corporate Executive Vice President



After spending more than twenty years in engineering divisions, I have worked in the Product & Portfolio Planning Division for eight years and a Sales and Marketing Division for six years. I want to be constantly attuned to the mood of customers and provide greater joy and satisfaction through new ideas and advanced technologies. In recent years, the automotive industry has been required to respond to increasingly serious environmental problems and traffic issues, and countermeasures have been devised through new technologies. It is necessary to actively adopt these solutions and provide them to customers in practical ways, and SUBARU will make appropriate investments and resource allocations to achieve this. The only path to survival for SUBARU is to continuously strengthen the brand while never betraying the trust of customers. We will constantly reexamine and continuously strengthen the brand position so that not only the products and services we provide, but also the SUBARU philosophy, resonate with customers.


CIO (Chief Information Officer)

Masaki Okawara

Corporate Executive Vice President



Information (and IT) connects division to division and person to person, and I want to support management quality improvement from an IT perspective by activating those connections. To that end, all Group employees must consider what we have been able to accomplish and unable to accomplish in the past and what we should do in the future, and my task is to lead the way. First of all, we will build an IT-conscious culture and prepare an environment where all employees can work dynamically in a safe and secure work environment with robust IT infrastructure. Then, we will develop an IT infrastructure built on a foundation of information security enhancement, promote true IT utilization based on the total optimization concept and the streamlining of objects and information, and explore IoT, AI, and connected technologies in preparation for business transformation and new value creation. In this way, I intend to play a part in enhancing value arising from deeper connections with customers, creating new value, and enhancing the SUBARU brand.



We will move ahead with selection and concentration, differentiation, and a value-added strategy while maintaining our industry-leading profit margin and aiming for sustained growth.

Toshiaki Okada

Director of the Board, Corporate Executive Vice President and CFO

Aspirations on Becoming CFO

I became Chief Financial Officer (CFO) of SUBARU on April 1, 2017. I consider it my role as CFO to diligently apply myself to financial and business management to ensure that SUBARU, which is by no means a large automaker, is able to achieve sustained growth and high profits even in an adverse business environment. Although in my former post in the Corporate Planning Department I was involved in the formulation of “Prominence 2020,” the mid-term management vision, since becoming CFO I have been able to more directly keep my finger on the pulse of investor sentiment. I will work to enhance SUBARU’s corporate value by actively arranging opportunities for dialogue with our shareholders and other stakeholders, correctly communicating the situation at SUBARU, and listening to their thoughts and opinions.

Business Performance in FYE March 2017

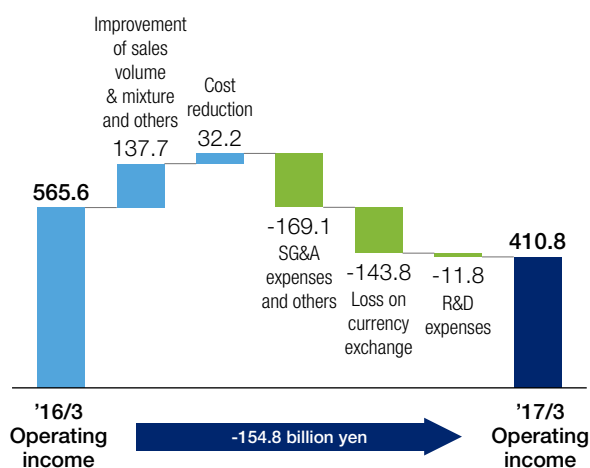
Consolidated unit sales in FYE March 2017 increased by 107,000 units to 1,065,000 units as a result of the contribution from production capacity expansion at SUBARU of Indiana Automotive, Inc. (SIA), our production base in the U.S., and continued strong sales, mainly in North America. Consolidated net sales increased by 93.7 billion yen year on year to 3,326.0 billion yen. Consolidated operating income decreased by 154.8 billion yen to 410.8 billion yen, ordinary income was 394.3 billion yen, and net income attributable to owners of parent was 282.4 billion yen as a result of increases in SG&A expenses, mainly quality-related expenses stemming from airbag inflators, and R&D expenses and the impact of exchange rate differences, despite an increase in unit sales and progress with cost reduction.

Outlook for FYE March 2018 and Future Business Direction

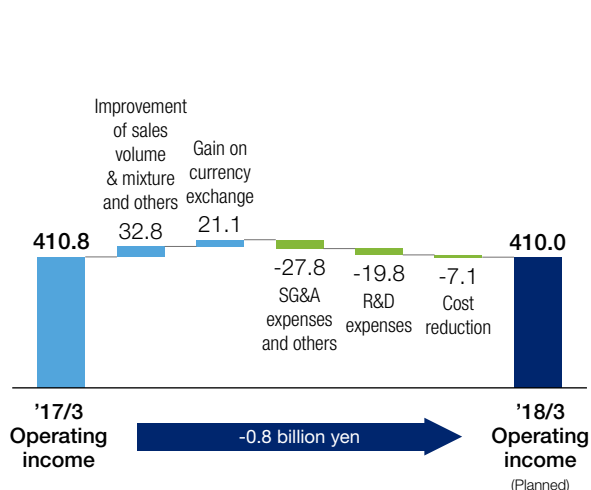
We forecast continued strong sales in North America and other markets and have planned for consolidated unit sales of 1.106 million units in FYE March 2018. We forecast consolidated net sales of 3,420.0 billion yen, operating income of 410.0 billion yen, ordinary income of 410.0 billion yen, and net income attributable to owners of parent of 285.0 billion yen, to result from increases in SG&A expenses and R&D expenses coupled with lower cost reductions due to the impact of raw materials prices, despite the projected impact of an increase in unit sales and a weak yen.

In the short term, we forecast a slowdown in the U.S. market, a key market for SUBARU, and accompanying intensification of competition. In these circumstances, although SUBARU sales remain strong, the all-new Impreza, which was introduced at the end of last year, will be the main sales driver in FYE March 2018. Since the Impreza is a comparatively low-profit model in the SUBARU lineup, it will be difficult to link sales volume growth to profit growth in FYE March 2018. Also, although SUBARU is maintaining a substantially lower level of sales incentives than the industry as whole, we plan no major change to the sales incentive program itself, such as leases or loans. However, there have been increases in market interest rates and the rate of program use, and we forecast a \$400 increase year on year in incentives to \$1,850. In addition to this model cycle impact and increase in selling expenses, we forecast sharply higher raw material prices and an increase in R&D expenses and are planning for profits to be nearly flat.

□ FYE March 2017: Analysis of Increase and Decrease in Operating Income Changes (Consolidated) (Billions of yen)



□ FYE March 2018: Analysis of Increase and Decrease in Operating Income Changes (Consolidated) (Billions of yen)



Message from the CFO

During the past few years, sales volume has grown substantially, mainly in North America, and an extremely high capacity utilization rate has been maintained at our production facilities, which have been kept lean. Moreover, a confluence of conditions favorable to the Company, namely low inventory levels at a time of supply shortages, low sales incentives, and favorable exchange rates, has led to rapid profit growth. In these circumstances, we substantially expanded production capacity at SIA last year to respond to a supply shortage that was becoming excessive, and the burden of depreciation and other fixed costs is increasing. Also, it is necessary to review and increase R&D expenses to respond to increasingly strict environmental regulations and advanced safety technologies, a subject of growing interest. In this way, the changes in the fixed cost structure are lagging slightly behind volume growth.

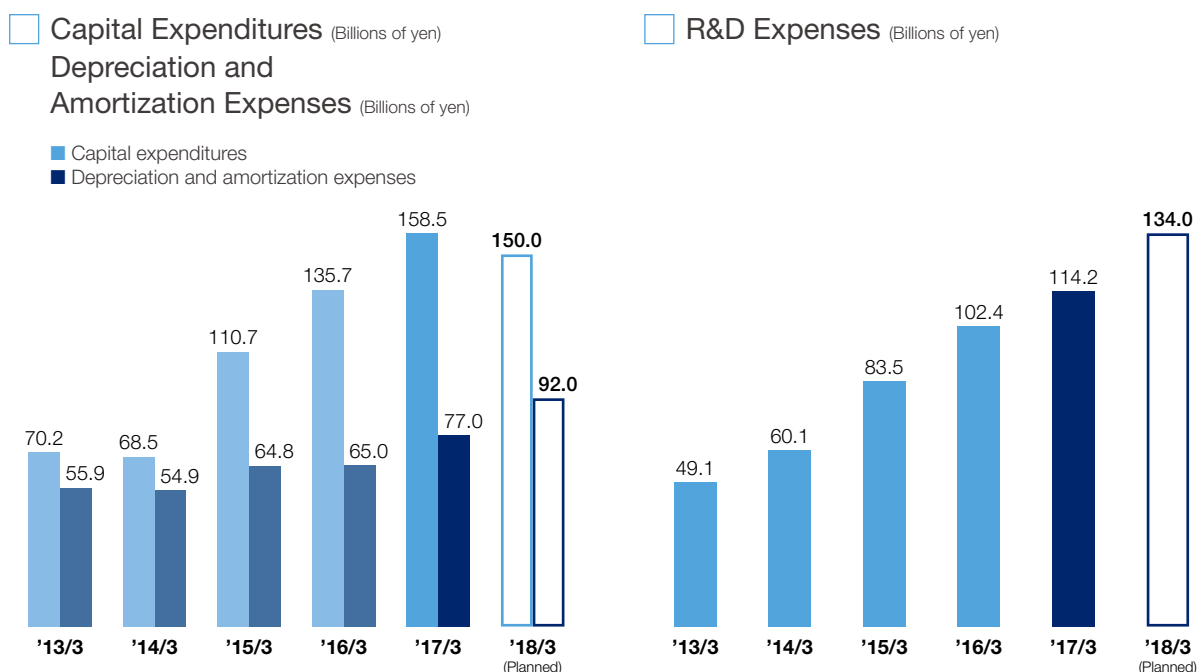
Because of these developments, although there is also a cycle of profitability associated with model changes, we must continue our initiatives to develop new technology while addressing the issue of maintaining a high profit margin, given a higher level of fixed costs. Our strategic direction for achieving this is unchanged from “Not big in size, but a high-quality company with distinctive strengths,” our vision for 2020 set out in “Prominence 2020,” the mid-term management vision.

We will move ahead with selection and concentration and differentiation and create added value in quality that customers will recognize and appreciate. Furthermore, we will promptly identify changes in the external environment and act to ensure that SUBARU can withstand an increasingly adverse business environment without departing from our current business model based on this way of thinking.

Financial and Capital Strategies

The Company engages in day-to-day business management with return on capital, financial soundness, and shareholder returns as the three key indicators of capital policy. Specifically, the Company has declared a policy of providing appropriate shareholder returns while maintaining a high degree of balance between return on equity (ROE) and the equity ratio over the medium and long term, and skillfully balancing these objectives is the cornerstone of our capital policy.

SUBARU has a history of extraordinarily high profits compared to the industry average, and in FYE



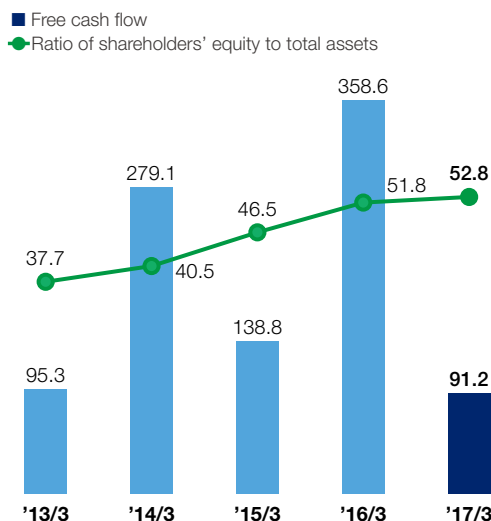
March 2017 ROE was an extremely high 20.2%. However, this figure is partly attributable to positive conditions such as the time difference between profit growth and cost increases, and we expect it to decline somewhat from the current level. We see strategic capital costs at approximately 8% and would like to maintain ROE of about twice that level for as long as possible.

SUBARU’s management approach is to concentrate on developed countries, mainly the U.S., with a small model lineup. We recognize that this approach entails aggressively taking on more risk than competitors in terms of being subject to the impact of exchange rates and business fluctuations in the market. For this reason, we will continue to pay attention to increasing shareholders’ equity and building a stable financial base so that SUBARU can withstand any sudden changes in the business environment.

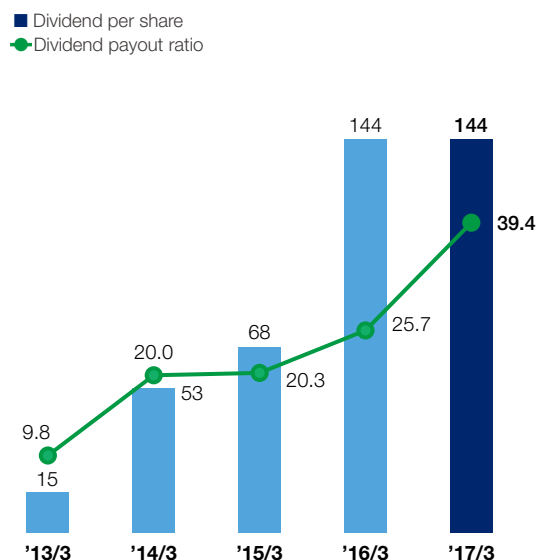
At the same time, we intend to boost returns to our shareholders. The Company makes dividends the basis of shareholder returns and has a policy of paying continuous, performance-linked dividends. The annual dividend payment for FYE March 2017 was 144 yen per share (half-year dividend of 72 yen and year-end dividend of 72 yen), the same as for FYE March 2016. We plan to maintain a dividend of 144 yen per share (half-year dividend of 72 yen and year-end dividend of 72 yen) again in FYE March 2018. For FYE March 2018 and beyond, we have raised the consolidated dividend payout ratio range from the previous 20–40% to 30–50%. The purpose of setting a dividend payout ratio range is to absorb fluctuations in business performance by adjusting the payout ratio and keep dividends as stable as possible. Of course, this does not mean that we will fix the amount of dividend per share. Rather, we will consider the amount of dividend payments while comprehensively taking into consideration business performance in each fiscal year, investment plans, and the business environment. In addition, we consider the buyback and retirement of shares an effective means of returning profit to shareholders and will consider buybacks as the situation warrants.

SUBARU will accelerate two initiatives with the aim of achieving “Not big in size, but a high-quality company with distinctive strengths,” our vision for 2020 set out in “Prominence 2020,” the mid-term management vision: namely, enhancement of the SUBARU brand aimed at further promoting value-added management and building a strong business structure that increases resilience to changes in the business environment. We intend to further enhance corporate value and meet the expectations of our shareholders and other stakeholders by achieving sustained growth while maintaining our industry-leading profit margin. I request your further understanding and support in the coming years.

Free Cash Flow (Billions of yen)
Ratio of Shareholders’ Equity to Total Assets (%)



Dividend per Share (Yen)
Dividend Payout Ratio (%)



Debut of the all-new Impreza!

The all-new Impreza is a strategically important vehicle positioned in “Prominence 2020,” the mid-term management vision as the first model in SUBARU’s next-generation product lineup. As the first model to use the new platform and the first to feature a new-concept design, the Impreza is the result of successfully overcoming various challenges and further evolution of the “Enjoyment and Peace of Mind” SUBARU value proposition.

With the release of the all-new Impreza, SUBARU has raised the curtain on the next generation of SUBARU cars with a model that promises to set a new standard for excellence.





All-around safety performance

in pursuit of the world's highest level of safety

Primary Safety

Basic design features for avoiding accidents

- Wide field of vision, comfortable driving environment, etc.

Active Safety

- SUBARU Global Platform for excellent handling performance
- Active Torque Vectoring for enhanced hazard avoidance performance*

Preventive Safety

- Newly evolved EyeSight (ver. 3) featured as standard equipment on all grades*
- Equipped with Steering Responsive Headlights and High Beam Assist*

Passive Safety

- SUBARU Global Platform for outstanding shock absorption performance*
- Pedestrian protection airbag featured as standard equipment*

*Specifications may vary depending on the market.

Quality feel

that goes beyond its class

Outstanding dynamic quality feel

- The first model to use the SUBARU Global Platform, achieves both high performance and comfort through analysis techniques that strive to quantify emotions

Static quality feel that goes beyond its class

- A Dynamic x Solid design that embodies SUBARU's "Enjoyment and Peace of Mind" value proposition fused with greatly enhanced interior and exterior finish



Winner of the 2016–2017 Car of the Year Japan Award

The Impreza was recognized for delivering higher quality driving performance through innovations such as the newly developed SUBARU Global Platform, for achieving the world's highest level of safety with a wide array of standard safety equipment, including the first pedestrian protection airbag on a Japanese car and the EyeSight driver assist system, and for its affordable price.

The Development Chief Discusses the Appeal of the All-New Impreza

Our objective was to deliver the ultimate in “Enjoyment and Peace of Mind” to all drivers and passengers.

Senior General Manager
Product & Portfolio Planning Division

Kazuhiro Abe



Innovative evolution of the “Enjoyment and Peace of Mind” value proposition to meet customer expectations

From the start of the new Impreza’s development until today, the project team has been filled with a strong desire to more fully meet the expectations of customers and enable as many people as possible to experience the day-to-day enjoyment of owning and driving the Impreza. Our first development task was

to search for the answer to the question, “What sort of car should we create to fulfill that desire?” My answer as development chief was the development concept “Deliver the ultimate in “Enjoyment and Peace of Mind” to all drivers and passengers.” We would not merely make incremental improvements for “Enjoyment and Peace of Mind,” SUBARU’s value proposition to customers, but rather undertake innovative evolution. We would create a product with value that everyone could clearly sense and recognize as appealing.

Taking on the challenge of going beyond a full model change to build a foundation for a new generation of SUBARU cars

Innovative evolution in safety performance and enjoyable driving performance, which are overall strengths of SUBARU, were absolute requirements for making the development concept a reality. This meant going beyond a complete redesign and full model change of the Impreza to conduct a complete review from the ground up, starting with the vehicle platform. In other words, we would take on the daunting challenge of developing a next-generation SUBARU platform. We thought that we could create a platform for the next generation of SUBARU cars only if we accomplished significant evolution in two areas: “All-around safety performance in pursuit of the world’s highest level of safety” and “Quality feel that goes beyond its class.” The entire project team approached development with an enormous sense of responsibility and pressure, knowing that if we did not succeed with the first model of a new generation of SUBARU cars, we could not possibly succeed with subsequent models.

For some fifteen years since the release of the fourth-generation Legacy, for which the current platform was developed, SUBARU engineers have accumulated a variety of technologies and expertise that contribute to improvement in safety performance and enjoyable driving performance. Our task in developing the new Impreza was to infuse these advances into a newly developed platform completely and all at once. We also aimed to establish a new foundation for continuing to provide, on a global scale, the highest level of “Enjoyment and Peace of Mind.” With this in mind, we named the newly developed platform the SUBARU Global Platform.

Development of this platform has not only resulted in substantially enhancing the dynamic quality feel and all-around safety performance of the SUBARU vehicle lineup overall, it has also brought greater efficiency in development and flexibility in production processes as a design that takes into consideration not only gasoline engine cars, but also hybrids, plug-in hybrids, and electric vehicles.

All-around safety performance in pursuit of the world's highest level of safety

Safety performance is the most important consideration for achieving the highest level of "Enjoyment and Peace of Mind." In keeping with SUBARU's safety concept, we uncompromisingly increased safety performance to unparalleled levels in the areas of primary safety, active safety, preventive safety, and passive safety.

In the area of primary safety, we further enhanced driver and passenger sense of security by realizing excellent visibility with few blind spots and a driving environment that reduces driver fatigue. Our efforts in the area of active safety led to top-of-class hazard avoidance performance resulting from outstanding handling performance made possible by the SUBARU Global Platform. In the area of preventive safety, we provide a sense of security supported by the top rating in preventive safety assessment earned through safety measures such as offering the EyeSight (ver. 3) driver assist system as standard equipment on all grades.*1 Achievements in the area of passive safety include the excellent shock absorption performance provided by the SUBARU Global Platform and the first use of pedestrian protection airbags in a Japanese car*1, which mitigate pedestrian injuries.

The all-new Impreza, which has further enhanced safety for driver, passengers, and pedestrians alike in this way, received the highest score ever in the FY 2016 new car assessment crash safety evaluation tests conducted by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) and the National Agency for Automotive Safety and Victim's Aid (NASVA) and



Collision tests of the first vehicle in Japan equipped with a pedestrian protection airbag

received the Grand Prix Award in collision safety performance assessment. In the U.S. market, the Impreza received the 2017 Top Safety Pick+ award, the Insurance Institute for Highway Safety's highest award. I think these achievements are the result of the project team's intense efforts to realize all-around safety performance in pursuit of the world's highest level of safety.

*1 Specifications may vary depending on the market.



Receipt of the 2016–2017 Japan New Car Assessment Program (JNCAP) Grand Prix Award

The Grand Prix is awarded to models receiving the JNCAP Five Star Award for collision safety performance that have exceeded a previous record-high score for collision safety performance. The Impreza received the highest scores ever in evaluation of passenger protection performance, pedestrian protection performance, and seatbelt reminder system.



Receipt of the 2017 Top Safety Pick+ Award, the Highest Award of the Insurance Institute for Highway Safety

The Impreza was the only vehicle in the small car class to achieve top ratings for all Insurance Institute for Highway Safety (IIHS)*2 safety evaluation criteria. It received ratings of Good in all required crashworthiness tests, a rating of Superior in the front crash prevention test, a rating of Good in the newly introduced headlight performance test, and a rating of Good+ in the child seat anchors (latch) performance test.

*2 The IIHS is a nonprofit organization supported by auto insurers in the U.S.

Special Feature: Raising the Curtain on the Next Generation of SUBARU Cars

Moving people's hearts with a quality feel that goes beyond its class

A second consideration in developing the all-new Impreza was to create a quality feel that goes beyond its class, as defined by size and other attributes, and elevate the sense of quality people feel when viewing, touching, driving, and riding in the car to an emotional experience. With regard to dynamic quality feel, the sensation of driving and riding in the car, we pursued driving performance that all drivers and passengers find safe and secure, enjoyable, and comfortable. We elevated the dynamic quality feel imparted by the SUBARU Global Platform, which has increased body and suspension rigidity by as much as 100% compared to previous models, to the level of excitement. With regard to static quality feel, the sensation of viewing and touching a car, the Impreza is the first production model to adopt SUBARU's Dynamic x Solid design philosophy, which concretely expresses SUBARU's "Enjoyment and Peace

of Mind" value proposition. It infuses a high-quality look and feel that goes beyond its class. In this way, we achieved an interior and exterior that is attractive and deeply satisfying. The dynamic quality feel and static quality feel of the new Impreza, as elements of a quality feel that goes beyond its class, realize ownership appeal equal in importance to safety performance.

In addition to the new Impreza's comprehensive pursuit of the world's highest level of safety and a quality feel that goes beyond its class, other key product features are practicality, to further enhance the day-to-day ownership and driving experience, the latest infotainment system, a high-grade interior, a comfortable passenger cabin, and fuel economy that owners can actually appreciate in everyday use.

The dream of every member of the development project team is that the new Impreza becomes like a life partner to our customers as they experience a happier, more rewarding way of life.

SUBARU Technologies for the Future

The SUBARU Global Platform—Developed with Future Safety in Mind

World-class hazard avoidance performance achieved by dramatically increasing vehicle driving stability.

One major objective in completely renewing the vehicle platform, which is the basic foundation of a car, was to further evolve the world-class level of safety performance that is one of the key features of the SUBARU brand. With the new platform, we undertook evolution of the undercarriage through significant increases in body and chassis rigidity, further lowering of the center of gravity, and a suspension design review. Internal testing shows that as a result, we have achieved hazard avoidance performance (the speed at which a hazard can be safely avoided by swerving in an emergency) of 92.5 km/h, compared to 84.5 km/h for current models, a level of performance that rivals high-end sports cars.

Leading the way in further evolution of collision safety performance with a 40% increase in collision energy absorption efficiency.

The new platform has dramatically increased body strength and has boosted collision energy absorption efficiency by about 40% compared with current SUBARU models through means such as increasing the rigidity of the body and chassis, optimizing the frame construction, multiplying load transmission routes, and expanding the use of high-strength materials.

In addition, looking ahead ten years, we are engaging in design that can be expected to further improve performance by means such as adopting even stronger materials to enable SUBARU vehicles to more effectively respond to more severe collisions expected in the future.



SUBARU's Concept of Environmental Technologies

SUBARU will comply with local environmental regulations by combining significant efficiency gains for internal combustion engines with electrification.

To improve gas mileage and reduce CO₂ emissions, SUBARU is making further improvements to the current direct-injection engine and engaging in development in preparation for introducing a newly designed turbo engine.

In the key U.S. market, the scope of the Zero Emission Vehicle (ZEV) Regulations will be expanded to include medium-

size automakers, including SUBARU, in 2018. We plan to introduce plug-in hybrids (PHEV) in 2018 to coincide with this regulatory change and also plan to introduce electric vehicles (EV) in 2021.

Our basic policy is not to introduce dedicated PHEV and EV models, but rather to introduce PHEV and EV powertrains to existing SUBARU models to take advantage of their individuality and driving characteristics. In this way, we will deliver SUBARU's quintessential "Enjoyment and Peace of Mind" even in the era of eco-friendly cars.

SUBARU's Concept of Automated Driving Technology

SUBARU aims not to replace human drivers with cars that drive themselves, but to pursue the complete elimination of traffic accidents by further evolving the EyeSight driver assist system.

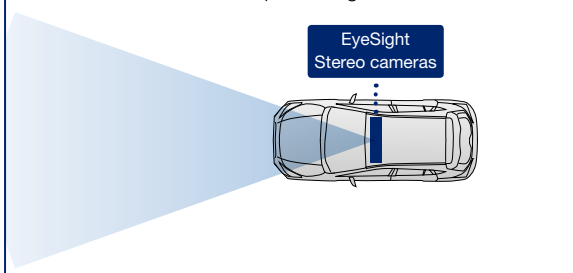
In 2017, SUBARU will introduce a version of the EyeSight driving assist system equipped with the new Touring Assist function. Touring Assist extends the range of speeds at which Lane Tracing Control can operate to the entire speed range (previously 60 km/h and above), adds automated steering that follows the preceding vehicle in the same lane, and, by combining this new feature with Adaptive Cruise Control, substantially reduces the driver burden on expressways driving

by automatically controlling acceleration, braking, and steering. The combined use of information on lane markings and preceding vehicles captured using SUBARU's proprietary stereo camera technology realizes consistent operation in a wide range of real-world settings. Furthermore, in 2020 we plan to implement advanced driving assistance by adding radar, digital maps, and other features to EyeSight to expand the scope of driving situations subject to automatic control to include lane changing and rounding curves.

At SUBARU, we will further enhance the accident avoidance performance of SUBARU cars by prioritizing development of driver assist functions that target such situations in which accidents are likely to occur.

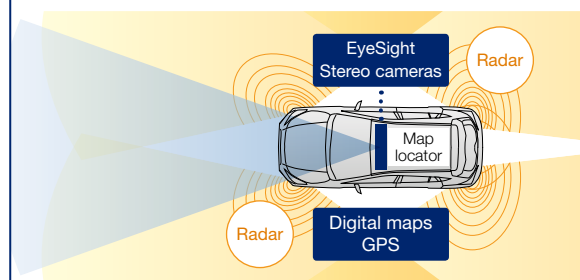
2017: Addition of the Touring Assist function

- Extension of the operating range of speeds of Lane Tracing Control (From a minimum of 60 km/h to any speed)
- Substantial reduction in the burden of driving through automatic control of handling, acceleration, and braking over the entire vehicle speed range



2020: Further evolution

- Further reduction in driver burden through expansion of the scope of driving situations subject to automatic control to include lane changes and rounding curves (Realized with minimum addition of devices)





Front row, from the left: Takeshi Tachimori, Jun Kondo, Yasuyuki Yoshinaga, Masahiro Kasai
 Back row, from the left: Yoshinori Komamura, Toshiaki Okada, Yoichi Kato, Shigehiro Aoyama

Directors of the Board

Jun Kondo

Director of the Board
 Chairman
 CCO (Chief Quality Officer)

Apr. 1976 Joined the Company
 Apr. 1999 General Manager of 2nd Production Department, Gunma Plant
 Jun. 2003 Corporate Vice President, Chief General Manager of SUBARU Manufacturing Division and Chief General Manager of Gunma Plant
 May 2004 Corporate Vice President, Chief General Manager of SUBARU Cost Planning & Management Division and General Manager of Cost Planning Department
 Jun. 2004 Corporate Senior Vice President, Chief General Manager of SUBARU Cost Planning & Management Division
 Jun. 2006 Corporate Senior Vice President, Chief General Manager of SUBARU Cost Planning & Management Division and Senior General Manager of SUBARU Purchasing Division
 Apr. 2007 Corporate Senior Vice President, Chief General Manager of Strategy Development Division and Chief General Manager of SUBARU Cost Planning & Management Division
 Jun. 2008 Director of the Board and Corporate Executive Vice President, Chief General Manager of Strategy Development Division
 Apr. 2009 Director of the Board and Corporate Executive Vice President
 Jun. 2011 Representative Director of the Board and Deputy President
 Jun. 2017 Director of the Board and Chairman (to the present)

Yasuyuki Yoshinaga

Representative Director of the Board
 President
 CEO (Chief Executive Officer)

Apr. 1977 Joined the Company
 Oct. 1999 General Manager of Sales Planning Department, Domestic Sales Division
 Apr. 2005 Corporate Vice President, Senior General Manager of Strategy Development Division and General Manager of Corporate Planning Department
 Jun. 2006 Corporate Vice President, Chief General Manager of Strategy Development Division
 Apr. 2007 Corporate Vice President, Chief General Manager of SUBARU Japan Sales & Marketing Division and General Manager of Sales Promotion Department
 Jun. 2007 Corporate Senior Vice President, Chief General Manager of SUBARU Japan Sales & Marketing Division
 Jun. 2009 Director of the Board and Corporate Executive Vice President, Chief General Manager of SUBARU Japan Sales & Marketing Division
 Jun. 2011 Representative Director of the Board, President and COO
 Jun. 2012 Representative Director of the Board, President and CEO (to the present)

Takeshi Tachimori

Representative Director of the Board
 Corporate Executive Vice President
 CTO (Chief Technology Officer)

Apr. 1977 Joined the Company
 Jul. 2000 General Manager of Total Vehicle Performance Integration Department, SUBARU Engineering Division
 Jun. 2006 Corporate Vice President, Senior Project General Manager of SUBARU Product & Portfolio Planning Division
 Apr. 2009 Corporate Vice President, Chief General Manager and Senior Project General Manager of SUBARU Product & Portfolio Planning Division, President, SUBARU Technica International Inc.
 Apr. 2010 Corporate Senior Vice President, Chief General Manager of SUBARU Product & Portfolio Planning Division
 Apr. 2011 Corporate Senior Vice President, Chairman, President & CEO of SUBARU of America, Inc. (SOA)
 Jun. 2011 Corporate Senior Vice President, Chief General Manager of SUBARU Overseas Sales & Marketing Division 1, Chairman, President & CEO of SUBARU of America, Inc. (SOA)
 Apr. 2013 Corporate Executive Vice President, Chief General Manager of SUBARU Overseas Sales & Marketing Division 1, Chairman & CEO of SUBARU of America, Inc. (SOA)
 Jun. 2013 Director of the Board and Corporate Executive Vice President, Chief General Manager of SUBARU Overseas Sales & Marketing Division 1, Chairman & CEO of SUBARU of America, Inc. (SOA)
 Apr. 2014 Director of the Board and Corporate Executive Vice President, Chief General Manager of SUBARU Global Marketing Division
 Apr. 2017 Director of the Board and Corporate Executive Vice President
 Jun. 2017 Representative Director of the Board and Corporate Executive Vice President (to the present)

Masahiro Kasai

Director of the Board
Corporate Executive Vice President
Apr. 1978 Joined the Company
Apr. 2000 Staff General Manager of Production Management Department, Corporate Planning Division
Jun. 2007 Corporate Vice President, President, SUBARU of Indiana Automotive, Inc. (SIA)
Apr. 2009 Corporate Vice President, Chief General Manager of SUBARU Manufacturing Division and Chief General Manager of Gunma Plant
Apr. 2010 Corporate Senior Vice President, Chief General Manager of SUBARU Manufacturing Division and Chief General Manager of Gunma Plant
Apr. 2014 Corporate Executive Vice President, Chief General Manager of SUBARU Purchasing Division
Jun. 2015 Director of the Board and Corporate Executive Vice President, Chief General Manager of SUBARU Purchasing Division
Apr. 2016 Director of the Board and Corporate Executive Vice President, President of Industrial Products Company
Oct. 2016 Director of the Board and Corporate Executive Vice President, Chief General Manager of Industrial Products Division (to the present)

Toshiaki Okada

Director of the Board
Corporate Executive Vice President
CFO (Chief Financial Officer)
Apr. 1984 Joined the Company
Oct. 2004 General Manager in charge of Sales Planning Department and Manager of 1st Planning Section, SUBARU Marketing Division
Apr. 2013 Corporate Vice President, General Manager of Corporate Planning Department
Apr. 2015 Corporate Senior Vice President, General Manager of Corporate Planning Department
Apr. 2017 Corporate Executive Vice President
Jun. 2017 Director of the Board and Corporate Executive Vice President (to the present)

Yoichi Kato

Director of the Board
Corporate Senior Vice President
Apr. 1983 Joined the Ministry of International Trade and Industry, Japanese government (present Ministry of Economy, Trade and Industry)
Jul. 2010 Director-General, Chubu Bureau of Economy, Trade and Industry, Ministry of Economy, Trade and Industry
Aug. 2011 Director-General, Business Environment Department, Small and Medium Enterprise Agency, Ministry of Economy, Trade and Industry
Sep. 2012 Counselor, Cabinet Secretariat
Dec. 2012 Deputy Director-General for Policy Evaluation, Minister's Secretariat, Ministry of Economy, Trade and Industry
Jun. 2013 Director-General for Regional Economic and Industrial Policy, Ministry of Economy, Trade and Industry
Oct. 2014 Corporate Vice President of the Company
Apr. 2015 Corporate Vice President, General Manager of External Relations Department
Apr. 2016 Corporate Senior Vice President, General Manager of External Relations Department
Apr. 2017 Corporate Senior Vice President, General Manager of External Relations Department and Chief General Manager of Corporate Administration Division
Jun. 2017 Director of the Board and Corporate Senior Vice President (to the present)

Yoshinori Komamura

Outside Director
Apr. 1970 Joined Komatsu Ltd.
Jun. 1999 Group CEO & Managing Director, Komatsu Europe International N.V.
Jun. 2005 Director and Senior Executive Officer, President, Construction and Mining Equipment Marketing Division, Komatsu Ltd.
Apr. 2007 Director and Senior Executive Officer, President, Construction and Mining Equipment Marketing Division, Komatsu Ltd.
Jun. 2010 Representative Director and Executive Vice President, Komatsu Ltd.
Jun. 2013 Senior Adviser, Komatsu Ltd.
Jun. 2015 Outside Director of the Company (to the present)
Jun. 2016 Adviser, Komatsu Ltd. (to the present)

Shigehiro Aoyama

Outside Director
Apr. 1969 Joined Suntory Limited
Mar. 1994 Director, Manager of the Board, Spirits Division, Suntory Limited
Mar. 1999 Managing Director, Member of the Board, Sales Development & Marketing Promotion Division, Suntory Limited
Mar. 2001 Managing Director, Member of the Board, Corporate Planning Division, Suntory Limited
Mar. 2003 Senior Managing Director, Member of the Board, Corporate Planning Division, Suntory Limited
Sep. 2005 Senior Managing Director, Member of the Board, President of Spirits, Wine & Beer Company, Suntory Limited
Mar. 2006 Executive Vice President, Member of the Board, President of Spirits, Wine & Beer Company, Suntory Limited
Feb. 2009 Executive Vice President, COO, Member of the Board, Suntory Holdings Limited
Mar. 2010 Executive Vice President, COO, Member of the Board, Representative Director, Suntory Holdings Limited
Oct. 2014 Vice Chairman of the Board, Representative Director, Suntory Holdings Limited
Apr. 2015 Supreme Adviser, Suntory Holdings Limited (to the present)
Jun. 2016 Outside Director of the Company (to the present)

Auditors



Akira Mabuchi

Standing Corporate Auditor
Apr. 1979 Joined the Company
Apr. 2005 Corporate Vice President, Senior General Manager of SUBARU Engineering Division and General Manager of Engineering Administration Department
Jun. 2007 Corporate Senior Vice President, Chief General Manager of SUBARU Engineering Division
Apr. 2009 Corporate Senior Vice President, Chief General Manager of Strategy Development Division
Jun. 2010 Director of the Board and Corporate Executive Vice President, Chief General Manager of Strategy Development Division
Jun. 2011 Director of the Board and Corporate Executive Vice President
Oct. 2011 Director of the Board and Corporate Executive Vice President, General Manager of China Project Office
Apr. 2015 Director of the Board and Corporate Executive Vice President
Jun. 2015 Standing Corporate Auditor of the Company (to the present)



Shuzo Haimoto

Standing Corporate Auditor
Apr. 1978 Joined The Industrial Bank of Japan, Ltd.
Mar. 2006 Executive Officer, General Manager of Human Resources, Mizuho Financial Group, Inc.
Apr. 2007 Executive Managing Director, Mizuho Bank, Ltd.
Jun. 2010 Corporate Auditor (full-time), Mizuho Financial Group, Inc.
Jun. 2011 Corporate Executive Vice President of the Company
Apr. 2012 Corporate Executive Vice President, General Manager of Business Planning Department of the Company
Apr. 2013 Corporate Executive Vice President, General Manager of Business Planning Department, President of Industrial Products Company of the Company
Apr. 2014 Corporate Executive Vice President, President of Industrial Products Company of the Company
Apr. 2016 Corporate Executive Vice President
Jun. 2016 Standing Corporate Auditor of the Company (to the present)



Shinichi Mita

Outside Corporate Auditor
Apr. 1974 Joined Kao Soap Co., Ltd. (current Kao Corporation)
Jun. 2004 Executive Officer, Global Accounting and Finance, Kao Corporation
Jun. 2006 Executive Officer, Kao Corporation
Jun. 2015 Corporate Auditor of the Company (to the present)



Yasuyuki Abe

Outside Corporate Auditor
Apr. 1977 Joined Sumitomo Corporation
Jun. 2002 President & CEO, Sumisho Electronics Co., Ltd.
Apr. 2005 President & CEO, Sumisho Computer Systems Corporation (currently SCSK Corporation)
Jun. 2009 Managing Executive Officer, Member of the Board, General Manager, Financial & Logistics Business Unit, Sumitomo Corporation
Apr. 2010 Managing Executive Officer, Member of the Board, General Manager of New Industry Development & Cross-function Business Unit, Sumitomo Corporation
Apr. 2011 Senior Managing Executive Officer, Member of the Board, General Manager, New Industry Development & Cross-function Business Unit, General Manager of Financial Services Division, Sumitomo Corporation
Apr. 2013 Senior Managing Executive Officer, Member of the Board, General Manager, Corporate Planning & Coordination Group, Sumitomo Corporation
Jun. 2015 Adviser, Sumitomo Corporation (to the present)
Jun. 2016 Corporate Auditor of the Company (to the present)

Executive Officers

Corporate Executive Vice Presidents

Tomomi Nakamura
Kazuo Hosoya
Masaki Okawara
CIO (Chief Information Officer)

Corporate Senior Vice Presidents

Yasunobu Nogai
Satoshi Maeda
Tetsuo Onuki
Katsuyuki Mizuma
Hideaki Matsuki
Hiromi Tsutsumi
Shoichiro Tozuka
Toshiaki Tamegai
Takuji Dai
Fumiaki Hayata

Corporate Vice Presidents

Hiroki Kurihara
Masayuki Uchida
Atsushi Osaki
Tatsuro Kobayashi
Katsuo Saito
Yasuhiro Hamanaka
Eiji Ogino
Yasushi Nagae
Jinya Shoji

Corporate Governance

Our Basic Approach to Corporate Governance

SUBARU works on the enhancement of corporate governance as one of the top priorities of management in order to gain the satisfaction and trust of all of our stakeholders by achieving sustainable growth and improving our corporate value in the medium and long term aiming to be “A Compelling Company with Strong Market Presence” based on the “Customers Come First” principle under the corporate philosophy outlined below.

We aim to achieve efficient management by clearly separating management decision-making and oversight from business execution and increasing the speed of decision-making. Furthermore, through monitoring of business operations and advice provided by outside officers, we ensure appropriate management decision-making, oversight and business execution, and work to improve compliance and the risk management system. To increase management transparency, we provide timely and appropriate disclosure of information.

Corporate Philosophy

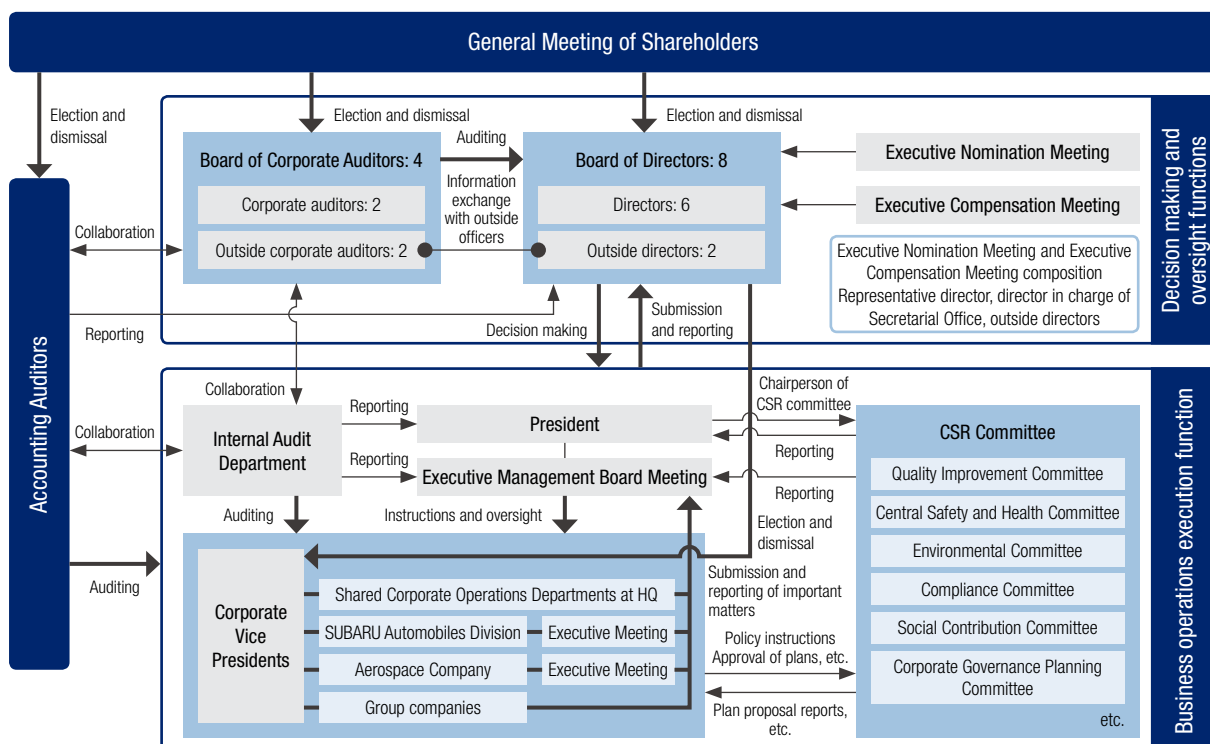
1. We strive to create advanced technology on an ongoing basis and provide consumers with distinctive products with the highest level of quality and customer satisfaction.
2. We aim to continuously promote harmony between people, society, and the environment while contributing to the prosperity of society.
3. We look to the future with a global perspective and aim to foster a vibrant, progressive company.

Company Organizational Bodies

SUBARU has adopted a Board of Corporate Auditors system, and the Board of Directors and the Board of Corporate Auditors perform decision making, and oversight and auditing for the execution of important business operations. The Board of Directors is composed of eight directors, two of whom are highly independent outside directors to further strengthen governance. The Board of Corporate Auditors is composed of four corporate auditors, two of whom are outside corporate auditors to provide objective oversight of management.

With regard to the system for the execution of business operations, important issues that require consultation with the Board of Directors are thoroughly discussed at the Executive Management Board Meeting, which deliberates on company-wide management strategy and the execution of key business operations. To clearly define responsibilities and increase the speed of business execution, we have adopted an executive officer system and established an Executive Meeting as a decision-making body for each business division and introduced an in-house company system for the Aerospace Company.

System of Corporate Governance



Development of Internal Control System

SUBARU resolved its basic policy on the development of a system to ensure that the execution of the duties of the directors complies with laws and regulations and the Articles of Incorporation as well as the other systems stipulated by ordinance of Japan's Ministry of Justice as necessary to ensure the proper operation of a stock company at a meeting of the Board of Directors in April 2015.

Status of Development of Risk Management System

At SUBARU, the Corporate Planning Department, which plays a central role in the common functions of each business, and other company-wide shared corporate operations departments maintain close links with each department and company to enhance risk management. In addition, the Audit Department performs planned audits of each department and Group company. SUBARU has also created and operates a system and organization to ensure compliance, which is the foundation of risk management, in order to assist with the development of the internal control system.

First, we have established the Compliance Committee, which deliberates, discusses, determines, exchanges information, and liaises on important compliance issues to promote the implementation of company-wide compliance. In addition, we have assigned a compliance officer and compliance staff for each department and company to organize a system that meticulously implements compliance at each workplace. We also systematically provide education and training for officers and employees on a routine basis as well as raising awareness about compliance through such means as in-house publications as necessary.

Furthermore, in order to promote the implementation of compliance in the SUBARU Group, we conduct education and training and provide information through in-house publications for Group companies in addition to raising the effectiveness of these activities through the participation of Group companies in the SUBARU internal reporting system (Compliance Hotline).

Status of Internal Audits and Auditing by Corporate Auditors

SUBARU's standing corporate auditors (including the standing outside corporate auditors), attend meetings of the Board of Directors and other important meetings, visit work sites, investigate subsidiaries, hear opinions from the internal audit department, and audit the execution of duties by the directors and others based on the audit policy and audit plan established by the Board of Corporate Auditors. The non-standing outside corporate auditors attend meetings of the Board of Directors and other important meetings, hear opinions from the internal audit department and the standing corporate auditors, and audit the execution of duties by the directors and others based on the audit policy and audit plan established by the Board of Corporate Auditors.

SUBARU has established the Audit Department as an internal auditing organization to implement planned audits of the execution of business operations in each in-house department as well as Group companies inside and outside Japan. At the beginning of the fiscal year, the department coordinates its internal audit plan for the fiscal year with the Board of Corporate Auditors' policy in advance. The Audit Department reports the results of all internal audits to the corporate auditors and reports on the status of internal audit activities and exchanges opinions with them on a monthly basis to achieve collaboration. The Audit Department also endeavors to strengthen the auditing function in conjunction with audits by the Accounting Auditor.

Evaluation of Internal Control System for Financial Reporting

An evaluation of the internal control system related to financial reporting in connection with the internal control reporting system based on Japan's Financial Instruments and Exchange Act is conducted using the final date of the fiscal year of the consolidated financial statements as the reference date. The evaluation conforms to the standards for evaluation of internal control related to financial reporting that are generally accepted to be fair and reasonable.

The President & Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) evaluated the status of the development of the internal control system related to financial reporting as of March 31, 2017 and affirmed that it has been established properly and functions effectively and issued an internal control report audited by the Accounting Auditors to that effect.

Executive Compensation

Classification	Number	Total compensation (millions of yen)		
		Basic compensation		
		Fixed amount	Performance based amount	
Directors (excluding outside directors)	6	283	240	523
Corporate auditors (excluding outside corporate auditors)	2	49	0	49
Outside executive officers	7	52	0	52
Total	15	383	240	624

*The above table includes one director and two auditors who resigned before the last day of the fiscal year under review. At the end of the fiscal year under review, there were 8 directors (including 2 outside directors) and 4 auditors (including 2 outside auditors).

By a resolution passed at the 85th Ordinary General Meeting of Shareholders, held on June 28, 2016, the maximum total amount of annual compensation for directors is 1.2 billion yen (including 200 million yen for outside directors). By resolution of the Board of Directors following discussion at the Executive Compensation Meeting, compensation for directors consists of 1) basic compensation (a fixed portion, with the specific amount determined based on position, taking into consideration the business environment and other factors), 2) short-term performance-linked compensation (a performance-linked portion, with the specific amount determined based on consolidated ordinary profit for the current business year, taking into consideration improvement in ROE and the shareholders' equity ratio, personnel development, and the business environment), and 3) long-term incentives (compensation to grant restricted stock for the purpose of providing an incentive for sustained improvement of the Company's corporate value and further value sharing with the shareholders).* The level of each compensation type is set according to official responsibilities and status as inside or outside director utilizing survey data from external specialists. The maximum amount of long-term incentives is 200 million yen per year. Outside directors are not eligible for short-term performance linked compensation or long-term incentives.

By a resolution passed at the 75th Ordinary General Meeting of Shareholders, held on June 27, 2006, the maximum total amount of annual compensation for corporate auditors is 100 million yen. An amount determined through discussion among the corporate auditors based on position, taking into consideration the business environment and other factors, is paid as basic compensation for corporate auditors.

*The Board of Directors resolved at a meeting held on April 28, 2017 to introduce a restricted stock compensation plan, and a resolution to pay compensation to grant restricted stock to directors was passed at the 86th Ordinary General Meeting of Shareholders, held on June 23, 2017.

Analysis and Evaluation of the Effectiveness of the Board of Directors

In accordance with the Corporate Governance Guidelines, the Company's Board of Directors analyzes and evaluates the effectiveness of the Board and considers measures to improve any issues identified. In FY2016, the Board performed analysis and evaluation focused on confirmation of measures to address issues recognized in the previous year's evaluation. A report on the analysis results follows.

Evaluation and Analysis Methods

- **Timing of implementation:** March 2017
- **Respondents:** Directors and corporate auditors (12 in total, including outside directors)
- **Evaluation format:** Self-evaluation using a questionnaire prepared by a third-party organization (same as last year)
- **Question format:** Four-stage self-evaluation using questions concerning operation of the Board of Directors and questions concerning Board of Directors relationships and open answers about matters necessary for further improving the Board's strong points and effectiveness in a questionnaire submitted directly to a third-party organization
- **Question content:** Basically the same as last year to enable comparison with the prior-year results, with a question for inside directors concerning successor development added
- **Evaluation and analysis:** Feedback of results compiled by the third party to all directors and corporate auditors for discussion and verification by the Board of Directors

An overview of the analysis results is as follows.

- The Board of Directors has an appropriate size and sufficient diversity for debate. The number, content, and amount of deliberation on proposals brought forth based on the Board of Directors' Proposal Criteria are appropriate and the Board's debate is open and unencumbered.

- Board of Directors members understand the specialized expertise of each member, respect fellow members, and strive to understand, rather than exclude, opinions and values that do not agree with their own.

In light of the above findings, the Company's Board of Directors concluded that the Board was effective in FY2016, confirming that the Board is fulfilling the roles and responsibilities set out in the Corporate Governance Code in terms of both its decision-making and oversight and that improvement has been made with respect to the issues identified in last year's results: enhancement of information provision and explanations to the outside officers, information sharing in IR activities, and activation of strategic debate. The Board of Directors will continue to perform effectiveness assessments to improve Board functions and continuously enhance corporate value.

Reasons for Appointing the Outside Officers and Status of Principal Activities

	Name	Independent Officer Status ¹	Reasons for Appointing and Status of Principal Activities in the Year under Review	Significant Concurrent Positions ²
Outside directors	Yoshinori Komamura	○	<p>Mr. Yoshinori Komamura had served two years as an independent outside director of the Company at the conclusion of the 86th Ordinary General Meeting of Shareholders. During his tenure, he has drawn on his career in management as a representative director of Komatsu Ltd. to provide valuable advice on the management of the Company based on his abundant experience and extensive knowledge as a business manager and his deep insight into corporate social responsibility. The Company has appointed Mr. Komamura with the expectation that he will contribute to maintaining and improving management transparency and soundness and strengthening corporate governance by continuing to provide advice on all aspects of the Company's management from an independent perspective as an outside director.</p> <p>Mr. Komamura attended all fifteen meetings of the Board of Directors held during FY2016 and fulfilled his role as a sound advisor on the Company's management. He also served as a member of the Executive Nomination Meeting and Executive Compensation Meeting.</p>	<p>Adviser, Komatsu Ltd.</p> <p>Member of the Board, Institute for Strategic Leadership (ISL)</p>
	Shigehiro Aoyama	○	<p>Mr. Shigehiro Aoyama had served one year as an independent outside director of the Company at the conclusion of the 86th Ordinary General Meeting of Shareholders. During his tenure, he has drawn on his career in management as a representative director of Suntory Holdings Limited to provide valuable advice on the management of the Company based on his abundant experience and extensive knowledge as a business manager and his deep insight into corporate social responsibility. The Company has appointed Mr. Aoyama with the expectation that he will contribute to maintaining and improving management transparency and soundness and strengthening corporate governance by continuing to provide advice on all aspects of the Company's management from an independent perspective as an outside director.</p> <p>Mr. Aoyama attended eleven of twelve meetings of the Board of Directors held from the time he assumed office on June 28, 2016 until the end of FY2016 and fulfilled his role as a sound advisor on the Company's management. He also served as a member of the Executive Nomination Meeting and Executive Compensation Meeting.</p>	<p>Supreme Advisor, Suntory Holdings Limited</p> <p>External Director, Takamatsu Construction Group Co., Ltd.</p> <p>President, The Distribution Economics Institute of Japan</p> <p>Director, Japan Marketing Association</p>
Outside corporate auditors	Shinichi Mita	○	<p>Mr. Shinichi Mita had served two years as an independent outside corporate auditor of the Company at the conclusion of the 86th Ordinary General Meeting of Shareholders. The Company has appointed him in the belief that he is well qualified as an outside corporate auditor since he has management experience and knowledge in both oversight and business execution, and particularly extensive experience and insight into accounting and finance in corporate activities, gained as a director and executive officer of Kao Corporation.</p> <p>Mr. Mita attended all fifteen meetings of the Board of Directors and all twelve meetings of the Board of Corporate Auditors held during FY2016 and fully performed his auditing function.</p>	<p>Adviser, Mizuho Capital Partners Co., Ltd.</p> <p>Member of the Board, Japan Association for Chief Financial Officers (JACFO)</p>
	Yasuyuki Abe	○	<p>Mr. Yasuyuki Abe had served one year as an independent outside corporate auditor of the Company at the conclusion of the 86th Ordinary General Meeting of Shareholders. The Company has appointed him in the belief that he is well qualified as an outside corporate auditor since he has a management career in both oversight and business execution and abundant experience and extensive knowledge as a business manager gained as a senior managing executive officer and member of the board of Sumitomo Corporation.</p> <p>Mr. Abe attended twelve meetings of the Board of Directors and ten meetings of the Board of Corporate Auditors held from the time he assumed office on June 28, 2016 until the end of FY2016 and fully performed his auditing function.</p>	<p>Adviser, Sumitomo Corporation</p> <p>Director of the Board (External), Chairman of the Board, JVC KENWOOD Corporation</p> <p>Adviser, ORANGE AND PARTNERS CO., LTD.</p>

¹ Outside directors and outside corporate auditors unlikely to have conflicts of interest with general shareholders as stipulated by the Tokyo Stock Exchange 2 As of March 31, 2017

*For the Corporate Governance Guidelines and the Corporate Governance Report, please visit the Corporate Governance page of the SUBARU website. (<https://www.subaru.co.jp/en/outline/governance.html>)

Messages from the Outside Directors

Yoshinori Komamura

Outside Director



My role as an outside director

As I see it, my role as an outside director can be broadly divided into two parts.

1. With the objective of purely maximizing corporate value from the standpoint of an outside director unconstrained by internal conventional wisdom or human relationships, take part in meetings of the Board of Directors with the aim of ensuring execution of balanced management that is fair to all stakeholders. I believe that this leads to strengthening and enhancement of SUBARU's corporate governance.
2. Contribute to SUBARU's sustained growth by offering required advice from time to time based on global business experience and human assets.

How does discussion take place at Board of Directors meetings?

At meetings of the Board of Directors, deliberation and resolution and highly serious discussion and rapid decision-making concerning reports on important matters take place in accordance with the Board of Directors Agenda Criteria. For SUBARU to remain a high-quality company, it must continue to achieve high quality as well as high levels in the areas of safety, the environment, and compliance. From my standpoint as an outside director, I want to actively speak out and contribute as much as possible to SUBARU's growth. I respect the fact that SUBARU's Board of Directors has the flexibility to forthrightly accept the comments and opinions of outside directors and the tenacity to seriously discuss each and every one.

The support system for outside directors and sufficiency of support

Outside directors are provided sufficiently detailed Board of Directors' materials equivalent to those available to inside directors. We are also provided with sufficient opportunities to understand company operations, such as participation in important internal meetings, new product and technology presentations, and test-ride events and visits to plants, dealers, and other sites. The support system for outside directors is excellent.

Business challenges SUBARU is likely to face in the future

I think that the greatest challenge will be to maintain and develop high-value-added management even if demand decreases in Japan, the U.S., and other key markets. To achieve this, even if profitability deteriorates temporarily, SUBARU must have the determination to make high quality the top priority and continue with high-quality, concentrated investment in R&D, production capacity, human resource development, and quality assurance. I am convinced that high-quality concentrated investment is certain to result in outcomes that will contribute to SUBARU's future business. Some of these may be new outcomes in business fields beyond SUBARU's current business domains and portfolio. I want to see SUBARU flexibly adopt these investment outcomes and continue to practice high-value-added management.

I think that the phrase "Nothing is impossible" is well suited to SUBARU.

Shigehiro Aoyama

Outside Director



My role as an outside director

Outside directors are expected to engage in management oversight, provide multifaceted advice on improving business performance, and offer advice on scandal prevention and risk avoidance. We must also make judgments from the perspective of customers, shareholders, and other external stakeholders and perform the role of reforming company logic that has become entrenched in internal logic.

I will utilize my experience in business planning, financial accounting, and marketing to offer advice at meetings of the Board of Directors and fulfill my role of overseeing and mentoring the management team.

How does discussion take place at Board of Directors meetings?

Frank discussion takes place. The outside directors are provided many opportunities to speak, and the meeting management of the chairman of the Board of Directors is excellent. Above all, discussions about production and technology, the most important core competences of SUBARU, take place in great detail.

The most important point in corporate governance today is careful communication between inside and outside officers, and this is another area in which SUBARU's Board of Directors excels. To further enhance discussion by the Board of Directors, I would like deliberation to extend to discussion of total optimization of business, not begin and end with discussion of individual optimization.

The support system for outside directors and sufficiency of support

Information provision from the Company to the outside directors is carried out in a timely manner. The system for providing support from internal organizations is also sufficient. Balanced information about the status of business execution is always available (joint meetings, etc.), and information sharing is sufficient to enable the outside directors to participate in discussion at Board of Directors meetings.

Business challenges SUBARU is likely to face in the future

SUBARU has achieved rapid growth and produced excellent business results in recent years. The Company currently faces an historic transition in automotive industry technologies and is confronted with the major challenge of how to respond. Considering SUBARU's management resources, it is necessary to enhance the SUBARU Brand with surgical precision by means such as practicing selection and concentration, pursuing differentiation, and enhancing added value, not attempt an omnidirectional response. The most important thing is corporate brand building in preparation for a new era.

To accomplish this, it is important to approach corporate management with a sense of urgency and alacrity, and further innovation in the management structure to enable SUBARU to undertake sustained growth will likely be necessary.

Achieving a Sustainable Society

The SUBARU Group engages in CSR activities aimed at contributing to the creation of a better society and environment through our core business to achieve a sustainable society.

Our Approach to CSR

Challenges for society abound in Japan and overseas, such as global warming, human rights issues, and an aging and declining population, and there are rising expectations that corporations will help resolve them. The SUBARU Group's business domain also requires initiatives on diverse themes such as reducing environmental impact, preventing traffic accidents, and alleviating traffic congestion.

Therefore, naturally we develop, manufacture, and sell products with outstanding safety and environmental performance and quality, but as a corporate citizen we also work on CSR activities to meet the needs of society and address social challenges in good faith. We reviewed how we can contribute to society through our business and how to meet the expectations and needs of our stakeholders amid a constantly changing social environment. As a result, we have reaffirmed that the Eight Action Items we have established as the categories for our CSR activities to date form the basis for all of our business activities.

Going forward, we will deliver "Enjoyment and Peace of Mind" to all of our stakeholders, including our customers, as a compelling company with strong market presence in addition to enhancing the corporate value of the SUBARU Group and contributing to the creation of a more affluent and sustainable society by ensuring that our business activities are based on the Eight CSR Action Items.

Corporate Code of Conduct

SUBARU CORPORATION sets down a corporate code of conduct to comply with laws and regulations and to fulfill its social responsibilities based on its corporate philosophy (See page 35). We will continue to strive to become a company loved by all and contribute to making society more affluent by respecting individuals and the corporate code of conduct and acting on the same sense of values.

Corporate Code of Conduct

1. We develop and provide creative products and services while paying sufficient attention to the environment and safety.
2. We respect the rights and characteristics of individuals.
3. We promote harmony with society and contribute to the prosperity of society.
4. We meet social norms and act honestly and fairly.
5. We maintain global perspective and aim to be in harmony with international society.

CSR Policy

The CSR Policy was revised with the approval of committees related to CSR to clearly indicate 1) the fundamental aspect of CSR focused on observance of the Corporate Code of Conduct and other vital rules, and 2) the strategic aspect of CSR focused on contribution to solving social issues as a corporate citizen through business activities, which requires the involvement of the whole corporate organization for a company which makes goods favored by customers.

Our CSR activities are the mission of the SUBARU Group to contribute to the sustainable development of society through global business activities with the focus on the relationships with our various stakeholders.

CSR Policy (Revised in June 2009)

1. We respect the laws and regulations, human rights, international standards of behavior and the rights and morals of stakeholders under the "Corporate Code of Conduct" of SUBARU CORPORATION.
2. We become involved as a corporate citizen in addressing social issues facing society today.

The Eight CSR Action Items

SUBARU has set eight CSR action items to encourage individual employees to conduct CSR activities in an organizational manner as part of their business operations. For each of the eight categories, we have defined the specific CSR activities to be conducted by employees to meet requests from society.

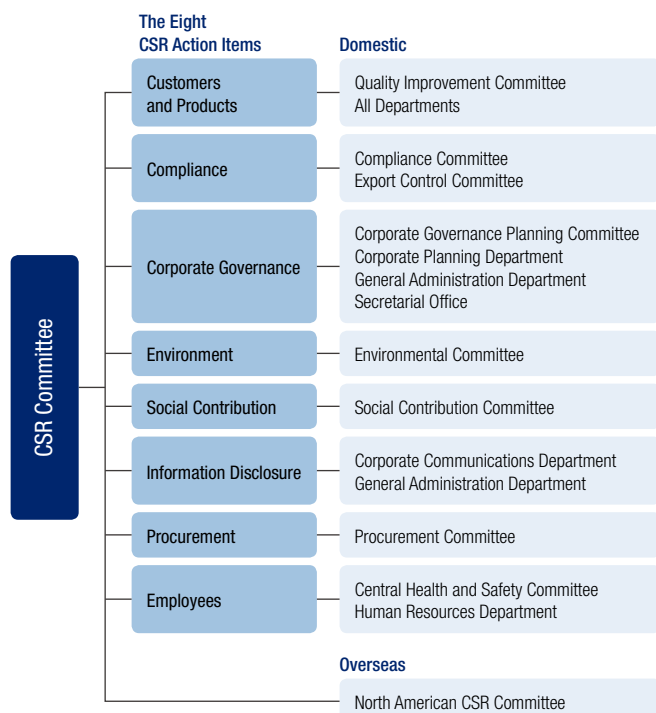


CSR Promotion System

Previously, we had promoted CSR activities under the supervision of a CSR and Environmental Committee. In FY2010, the CSR Committee was newly established and headed by top management to more clearly identify and promote more systematically CSR-related activities in eight categories. Furthermore, in FY2017 we established the CSR & Environment Department because of increasing societal expectations and demands with respect to CSR and its increasing importance in management.

Since FY2016, the CSR Committee has consisted of specialized committees and existing organizational units, each of which is closely linked to any one of the eight CSR-related categories. Furthermore, all organizational units engage in these activities acting on their own initiative under company-wide control. The CSR Committee also has the North American CSR Committee, which helps to carry out global promotion of CSR activities.

Organization Chart



Promotion of CSR Activities

Promoting Diversity

For our company to continue offering customers value not found in competing products, each SUBARU employee needs to be able express his or her abilities as an individual with unique values. For this reason, SUBARU values differences in gender, nationality, culture, and lifestyles of employees and strives to create workplace environments in which everyone finds it easy to work. We also promote initiatives related to diversity at affiliated companies in Japan and overseas in accordance with regional characteristics and the business content of each company.

Establishment of Diversity Promotion Office

We established the Diversity Promotion Office in January 2015 in order to promote diversity at SUBARU even more proactively. Under the Diversity Promotion Office, we have designated “promoting active roles for female employees,” “employing people with disabilities,” “planning and promoting employment of non-Japanese,” and “promoting employment of the elderly” as priority themes. Among these themes, we have placed particular emphasis on efforts to promote active roles for female employees. For our efforts in FY 2016, we introduced our mentor system for female managers and manager candidates to create training plans that support career development for female employees, and began career advancement training for female team leaders to systematically cultivate the next generation of female manager candidates.

SUBARU has formulated an employer action plan aimed at promoting active roles for women in accordance with the Act on Promotion of Women’s Participation and Advancement in the Workplace. In our action plan, which is based on the SUBARU policy of promotion through merit, based on demonstrated ability, we set a goal of increasing the number of female managers in 2020 by at least five times the number in 2014 (from 4 to 20). In FY 2017, we will continue to implement initiatives to achieve this target and undertake further qualitative improvement.

Promoting Work-Life Balance

SUBARU aims to create a group of highly engaged, autonomous employees, and we believe that it is important to establish an environment that allows individuals to fully express their unique abilities. We work on promoting diversity in work styles as well as enhancing our programs in order to respect the diversity of our employees and help them to achieve work-life balance. We promote initiatives to support work-life balance at affiliated companies in Japan and overseas in accordance with their regional characteristics and the business content of each company.



The Kurumin Mark

Supporting Each Employee’s Work and Household

To support employees both at work and at home, SUBARU has established programs that exceed legal requirements to assist employees in balancing childcare or nursing care and work, including a childcare leave system that can be extended to the first April after a child becomes two years old, a short work-time system available until a child commences 4th grade, and a leave or short-work time system to allow for elderly care. We promote employee awareness and utilization of these programs by conducting lectures on program details in grade-specific training and posting a Maternity Leave and Child-Rearing Handbook on the company intranet.

In addition, in accordance with the Next Generation Education and Support Promotion Act, we have formulated and implemented our own action plan. As a result of achieving the targets in previous action plans, we acquired Certification by the Minister of Health, Labor and Welfare (the Kurumin Mark) three times. We will implement the fifth phase of the action plan (April 2017 through March 2019) with the aim of receiving *Platinum Kurumin* certification. We will step up our support to enable employees to pursue career advancement while balancing childcare and work.

Message from the Environmental Committee Chair



Yoichi Kato

Director of the Board

Corporate Senior Vice President

Environmental Committee Chair

Aiming for a Sustainable Society

On April 1, 2017, we changed our company name to SUBARU CORPORATION. In addition, the environmental policy was revised to become the “SUBARU Environmental Policy” at the same time as the corporate name change. The new SUBARU Environmental Policy is based on the concept that “‘the earth, the sky and nature’ are SUBARU’s fields of business” and considers preservation of the ecosystems of our planet, in which SUBARU’s automotive and aerospace industrial fields, or “the earth, the sky and nature,” are of utmost importance to ensure the future sustainability of both society and our organization. We align our business strategies to enhance these global goals in all our operations. We will strive in all of our corporate activities with this in mind.

Specific activities include acquisition of ISO14001 and Eco Action 21 Value Chain certification, and also by evolving our efforts throughout the entire SUBARU Group, a highly efficient environmental management adapted to the industry will be achieved throughout the entire supply chain. At the same time, the SUBARU Environmental Policy focuses on initiatives aimed at co-existence with nature. The “SUBARU Forest Project” activity that we started as one of those initiatives takes place in SUBARU owned forests where forest maintenance and conservation activities are to be carried out with cooperation from local communities.

The 2017 Environmental Report focused on our efforts to address environmental issues related to the entire corporate supply chain and product life cycles from the procurement of raw materials to the manufacturing, distribution, marketing and selling, recycling, and disposal of products. Please read through this information and feel free to share with us your frank opinions and impressions.

We will continue to aim for a sustainable society through continuously improving corporate values and contributing to creating a better society and environment based on our management philosophy of aiming to be “a compelling company with a strong market presence.”

*For details on CSR activities and Environmental Report 2017, please visit the CSR/Environment page of the SUBARU website.
(<https://www.subaru.co.jp/en/csr/report/>)

SUBARU Environmental Policies [Established: April 1998, Revised: April 2017]

(SUBARU Sustainability Principles)

“The earth, the sky and nature” are SUBARU’s fields of business.

With the automotive and aerospace businesses as the pillars of SUBARU’s operations, our fields of business are the earth, the sky and nature. Preservation of the ecosystem of our planet, the earth, the sky and nature, is of utmost importance to ensure the future sustainability of both society and our organization. We align our business strategy to enhance these global goals in all of our operations.

1. We develop and deliver products to meet societal needs and contribute to the environment through advanced technologies.

By striving to create advanced technologies that put the environment and safety first, we will develop and deliver products that can contribute to protecting the earth’s environment.

2. We focus on efforts aimed at coexistence with nature.

Together with efforts to reduce carbon-dioxide emissions in all of our operations, we will promote active engagement with nature by stressing forest conservation.

3. We take on challenges as one through an all-SUBARU approach.

Utilizing our unique organizational character that allows us to oversee the entire supply chain, all of us together will take on the challenges of environmental protection of our planet through an all-SUBARU approach.

*For the full text of SUBARU Environmental Policies, please visit the CSR/Environment page of the SUBARU website.
(https://www.subaru.co.jp/en/outline/Environmental_Policies.pdf)

Consolidated Ten-Year Financial Summary

SUBARU CORPORATION and its consolidated subsidiaries

	'08/3	'09/3	'10/3	'11/3
For the year:				
Net sales	¥1,572,346	¥1,445,790	¥1,428,690	¥1,580,563
Cost of sales	1,217,662	1,164,564	1,152,763	1,241,427
Gross profit	354,684	281,226	275,927	339,136
Selling, general and administrative expenses	309,004	287,029	248,577	255,001
Operating income (loss)	45,680	(5,803)	27,350	84,135
Income (loss) before income taxes and minority interests	31,906	(21,517)	(443)	63,214
Net income (loss) attributable to owners of parent	18,481	(69,933)	(16,450)	50,326
Comprehensive income	—	—	(13,416)	34,900
Net cash provided by (used in) operating activities	107,387	(26,892)	176,734	138,208
Net cash provided by (used in) investing activities	(44,920)	(72,385)	(62,656)	(51,109)
Free cash flow	62,467	(99,277)	114,078	87,099
Net cash provided by (used in) financing activities	(45,110)	80,449	(18,560)	(39,408)

At year-end:

Net assets	¥ 494,423	¥ 394,719	¥ 381,893	¥ 413,963
Shareholders' equity	493,397	393,946	380,587	412,661
Total assets	1,296,388	1,165,431	1,231,367	1,188,324
Ratio of shareholders' equity to total assets (%)	38.1%	33.8%	30.9%	34.7%

Per share: (in yen and U.S. dollars)

Net income (loss):				
Basic	¥ 25.73	¥ (91.97)	¥ (21.11)	¥ 64.56
Diluted	25.73	—	—	—
Net assets	687.02	505.59	488.58	528.88

Other information:

Depreciation/amortization	¥ 87,164	¥ 74,036	¥ 65,785	¥ 56,062
Capital expenditures (addition to fixed assets)	118,869	95,153	89,077	67,378
Research and development expenses	52,020	42,831	37,175	42,907
Number of shares issued (thousands of shares) ²	782,865	782,865	782,865	782,865
Number of shareholders ²	44,484	40,839	39,223	34,240
Number of employees ²				
Parent only	11,909	12,137	12,483	12,429
Consolidated	26,404	27,659	27,586	27,296
Non-consolidated exchange rate (yen to the US dollar)	116	102	93	86

Unit sales:

Consolidated automobile unit sales (thousand units)	597	555	563	657
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SUBARU vehicle unit production:

Consolidated unit production (thousand units)				
Domestic	490	474	453	459
SIA	109	92	104	165

(Millions of yen)						(Thousands of U.S. dollars ¹)
'12/3	'13/3	'14/3	'15/3	'16/3	'17/3	'17/3
¥1,517,105	¥1,912,968	¥2,408,129	¥2,877,913	¥3,232,258	¥3,325,992	\$29,643,422
1,222,419	1,501,809	1,728,271	2,017,490	2,187,136	2,386,266	21,267,967
294,686	411,159	679,858	860,423	1,045,122	939,726	8,375,455
250,727	290,748	353,369	437,378	479,533	528,916	4,714,047
43,959	120,411	326,489	423,045	565,589	410,810	3,661,408
52,879	93,082	328,865	392,206	619,003	394,695	3,517,781
38,453	119,588	206,616	261,873	436,654	282,354	2,516,524
44,474	152,009	210,757	309,271	405,703	279,352	2,489,768
54,865	166,715	313,024	311,543	614,256	345,442	3,078,806
(26,602)	(71,370)	(33,903)	(172,780)	(255,676)	(254,252)	(2,266,061)
28,263	95,345	279,121	138,763	358,580	91,190	812,745
2,586	(60,766)	(63,011)	(110,546)	(126,190)	(189,044)	(1,684,884)
¥ 451,607	¥ 596,813	¥ 770,071	¥1,030,719	¥1,349,411	¥1,464,888	\$13,056,044
450,302	595,365	765,544	1,022,417	1,343,732	1,458,664	13,000,572
1,352,532	1,577,454	1,888,363	2,199,714	2,592,410	2,762,321	24,619,617
33.3%	37.7%	40.5%	46.5%	51.8%	52.8%	
¥ 49.27	¥ 153.23	¥ 264.76	¥ 335.57	¥ 559.54	¥ 365.77	\$ 3.26
—	—	—	—	—	—	—
576.97	762.87	980.98	1,310.15	1,721.90	1,902.56	16.96
¥ 58,611	¥ 61,544	¥ 61,486	¥ 71,821	¥ 72,938	¥ 85,653	\$ 763,396
67,035	94,986	98,537	135,346	168,338	196,616	1,752,371
48,115	49,141	60,092	83,535	102,373	114,215	1,017,959
782,865	782,865	782,865	782,865	782,865	769,175	
33,139	28,890	51,386	70,942	79,594	76,471	
12,359	12,717	13,034	13,883	14,234	14,708	
27,123	27,509	28,545	29,774	31,151	32,599	
79	82	100	108	121	108	
640	724	825	911	958	1,065	
465	511	609	681	693	698	
171	181	164	207	236	335	

1. U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥112.20 to US\$1.00, the approximate rate of exchange at March 31, 2017.
2. As of March 31

Five-Year Automobile Sales

Consolidated Automobile Sales

	'13/3	'14/3	'15/3	'16/3	'17/3
(Number of units)					
Domestic units:					
Legacy	24,207	18,961	13,845	11,358	11,065
Impreza	53,250	61,071	39,462	39,794	51,592
Forester	18,044	36,572	21,103	22,044	24,239
Levorg	0	0	40,559	23,555	23,775
WRX	0	0	7,514	6,956	6,552
Exiga	7,392	3,853	1,937	4,498	4,284
SUBARU BRZ	6,711	3,380	1,890	1,995	2,253
OEM	2,778	1,857	1,127	884	2,066
Others	368	453	439	502	567
Passenger cars	112,750	126,147	127,876	111,586	126,393
Minicars	50,372	55,454	34,876	33,702	32,542
Domestic total	163,122	181,601	162,752	145,288	158,935

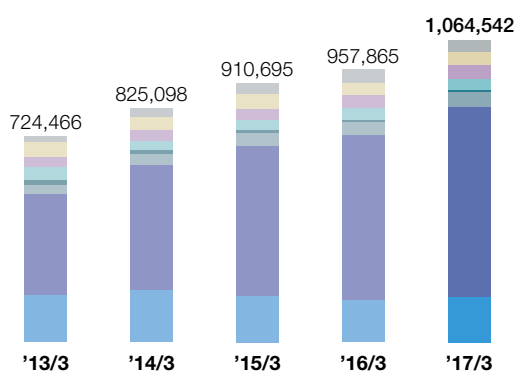
Overseas units by region:					
U.S.	357,569	441,799	527,630	582,674	667,613
Canada	32,644	36,013	42,439	47,579	53,061
Russia	14,719	15,314	11,559	5,723	5,338
Europe	46,382	31,756	35,730	41,778	40,915
Australia	38,120	39,515	38,889	44,611	49,106
China	50,185	44,807	53,821	44,388	44,000
Others	21,725	34,293	37,875	45,824	45,574
Overseas total	561,344	643,497	747,943	812,577	905,607

Overseas units by model:					
Legacy	207,460	182,712	235,791	286,979	333,339
Impreza	190,864	210,828	196,403	217,272	238,858
Forester	147,679	231,173	269,649	250,072	272,768
Levorg	0	0	0	7,713	6,823
WRX	0	0	37,982	43,120	47,185
Tribeca	4,243	2,561	64	34	7
SUBARU BRZ	10,100	15,822	7,914	7,387	6,627
OEM	591	256	135	0	0
Others	407	145	5	0	0
Overseas total	561,344	643,497	747,943	812,577	905,607
Grand total	724,466	825,098	910,695	957,865	1,064,542

Consolidated Automobile Sales by Region

(Number of units)

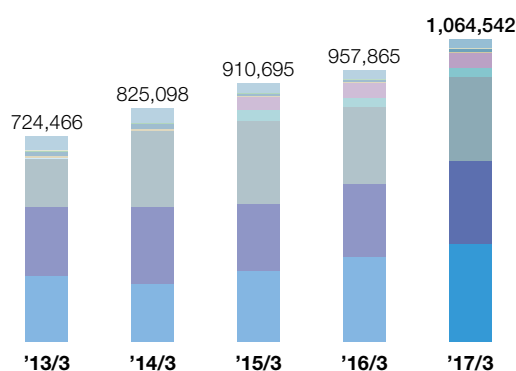
Japan United States Canada Russia
Europe Australia China Others



Consolidated Automobile Sales by Model

(Number of units)

Legacy Impreza Forester Levorg
WRX Tribeca Exiga SUBARU BRZ
OEM Others Minicars



□ Non-Consolidated Automobile Sales

	(Number of units)				
	'13/3	'14/3	'15/3	'16/3	'17/3
Domestic units:					
Legacy	25,424	19,272	14,734	11,665	11,529
Impreza	54,306	62,519	40,277	41,137	53,136
Forester	18,951	37,124	21,569	22,631	24,231
Levorg	0	0	41,832	24,014	24,626
WRX	0	0	7,991	7,181	6,724
Exiga	7,845	3,869	2,016	4,797	4,356
SUBARU BRZ	6,850	3,334	1,941	2,070	2,394
OEM	2,953	1,944	1,224	904	2,575
Passenger cars	116,329	128,062	131,584	114,399	129,571
Minicars	50,381	57,779	35,563	35,642	34,124
Domestic total	166,710	185,841	167,147	150,041	163,695

Export units:

Legacy	30,559	22,817	34,344	50,353	39,719
Impreza	198,232	206,022	199,770	218,866	191,873
Forester	142,745	247,362	265,072	249,202	278,963
Levorg	0	0	0	7,880	6,805
WRX	0	7,644	37,865	43,177	46,730
Tribeca	222	0	0	0	0
Exiga	407	145	5	0	0
SUBARU BRZ	11,542	15,118	8,418	7,005	6,653
OEM	316	86	135	0	0
Export total	384,023	499,194	545,609	576,483	570,743

U.S. retail sales¹

Legacy	164,680	160,340	191,060	212,741	248,204
Impreza	89,195	130,567	128,952	155,712	150,915
Forester	76,347	123,591	159,953	175,192	178,593
WRX	0	0	25,492	33,734	33,279
Tribeca	2,075	1,598	732	0	0
SUBARU BRZ	4,144	8,587	7,504	5,296	4,141
U.S. total	336,441	424,683	513,693	582,675	615,132

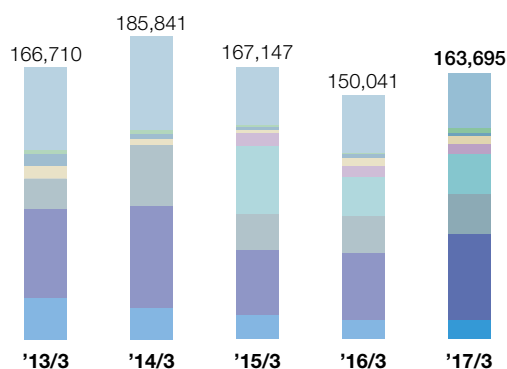
CKD overseas

CKD overseas	185,757	165,554	222,513	242,424	353,770
(SIA portion)	183,729	159,266	218,565	237,060	344,518

1. U.S. Retail Sales are the aggregate figures for the calendar year from January through December.

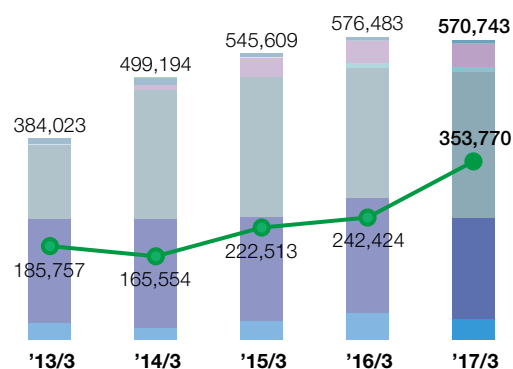
□ Non-Consolidated Domestic Automobile Sales by Model (Number of units)

Legend: Legacy, Impreza, Forester, Levorg, WRX, Exiga, SUBARU BRZ, OEM, Minicars



□ Non-Consolidated Automobile Export Units by Model (Number of units)

Legend: Legacy, Impreza, Forester, Levorg, WRX, Tribeca, Exiga, SUBARU BRZ, OEM, CKD Overseas



Financial Review

Business Segments and Scope of Consolidation

The SUBARU Group (“the Group”) consists of three business segments: the core Automotive Business Unit, which accounts for more than 90% of consolidated net sales, the Aerospace Company, and Other Businesses, consisting of businesses that do not belong to either of the other two segments. In the fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017; the “fiscal year under review”), SUBARU CORPORATION (“the Company”), 77 subsidiaries, and 2 equity-method affiliated companies were included in the scope of consolidation.

Overview of Business Performance

Business Environment

During the fiscal year under review, although business conditions in Japan continued to recover gradually, uncertainty surrounding the global political and economic situation heightened due to factors including the U.K.’s Brexit declaration and the inauguration of a new administration in the U.S. Against this backdrop, the yen appreciated sharply against the U.S. dollar in foreign exchange markets.

In “Prominence 2020,” mid-term management vision, the Group has articulated “Not big in size, but a high-quality company with distinctive strengths” as its vision for 2020. To achieve this business vision, the Group will implement measures centered on two initiatives: first, enhancement of the SUBARU brand aimed at further promoting value-added management, and second, building a strong business structure that increases resilience to changes in the business environment. As part of this effort, as a result of comprehensive consideration of the business portfolio, the Company decided to terminate the Industrial Products

Division in order to more effectively utilize management resources to further strengthen the competitiveness of the core automotive business. Also, on April 1, 2017, the Company changed its name from Fuji Heavy Industries Ltd. to SUBARU CORPORATION.

In the fiscal year under review, the Company was able to produce steady results from these initiatives. The North American market, a key market for SUBARU, continued to drive global sales, and automobile unit sales exceeded one million vehicles for the first time.

Summary of Business Performance

As a result of the above factors, the Group absorbed a dip in sales revenue due to currency fluctuations, thanks in part to the increase in automobile unit sales, and recorded record-high consolidated net sales of 3,326.0 billion yen, up 93.7 billion yen (2.9%) compared with the previous fiscal year.

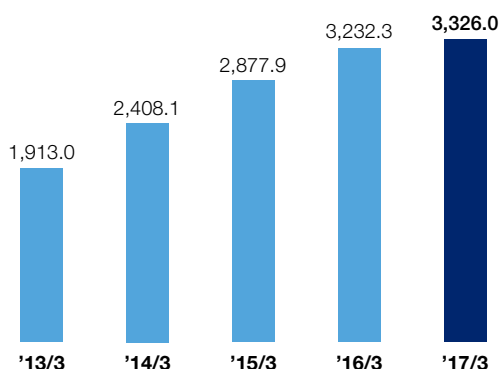
Consolidated operating income decreased 27.4% year on year, and net income attributable to owners of parent decreased 35.3%.

Profit and Loss

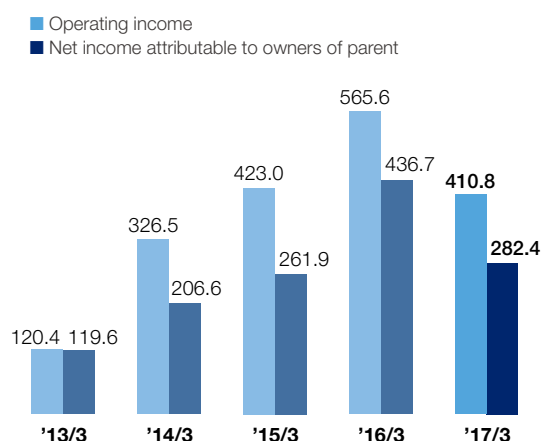
Operating Income

Consolidated operating income was 410.8 billion yen, down 154.8 billion yen (27.4%) year on year. The operating margin was 12.4%, down 5.1 points, reflecting the sales increase and operating income decrease. The impact of factors that negatively affected profits—including increases in SG&A expenses, mainly quality-related expenses stemming from airbag inflators and selling expenses following interest rate increases in the U.S., exchange rate differences, and higher R&D expenses—exceeded the impact of factors contributing to higher profits, namely sales mix improvement and cost reduction.

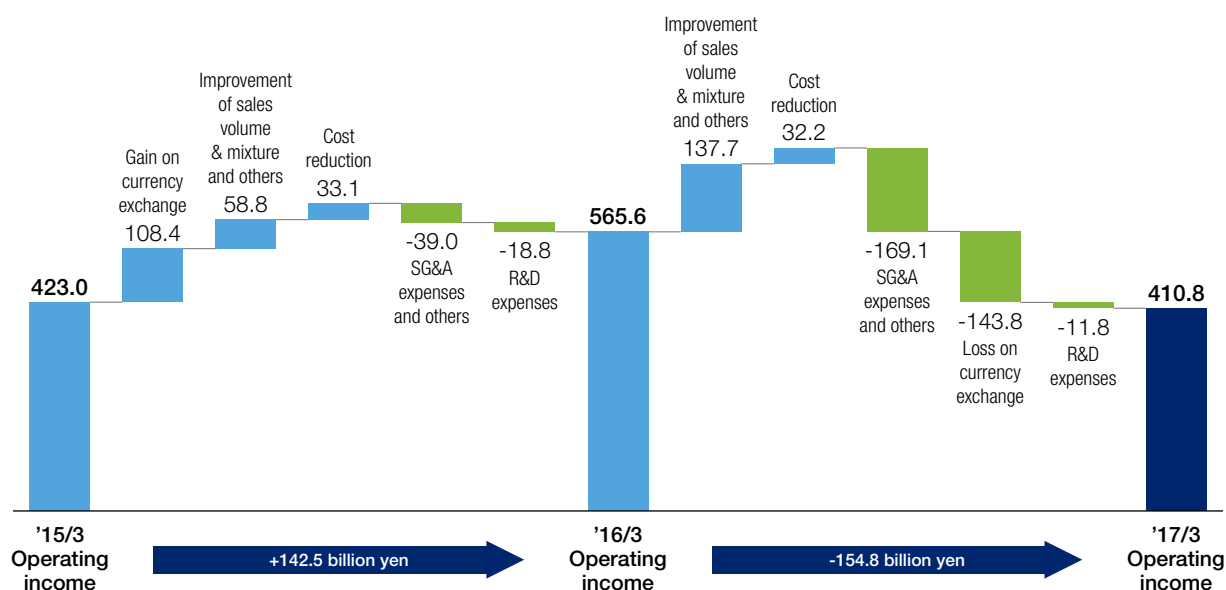
□ Net Sales (Billions of yen)



□ Operating Income (Billions of yen)
 Net Income Attributable to Owners of Parent (Billions of yen)



□ Year-on-Year Analysis of Factors Affecting Operating Income (Consolidated) (Billions of yen)



Income before Income Taxes and Net Income Attributable to Owners of Parent

Income before income taxes was 394.7 billion yen, down 224.3 billion yen (36.2%) compared with the previous fiscal year.

Net income attributable to owners of parent, which is income after deducting income taxes and net income attributable to non-controlling interests from income before income taxes, was 282.4 billion yen, down 154.3 billion yen (35.3%).

Segment Information

Automotive Business Unit

Net sales from the Automotive Business Unit were 3,152.0 billion yen, up 112.5 billion yen (3.7%) compared with the previous fiscal year, and segment income was 397.7 billion yen, down 146.0 billion yen (26.8%).

Consolidated global unit sales reached a record high for the fifth consecutive year, increasing 107,000 vehicles (11.1%) year on year to 1,065,000 units.

Domestic Market

Total automobile demand in Japan in the fiscal year under review increased 2.8% year on year to 5.078 million vehicles, with ordinary passenger car sales increasing 8.1% due to factors including the impact of new model introductions by automakers and mini car sales decreasing 5.1% due to the impact of an increase in the minicar tax, among other factors.

In this business environment, the Group's unit sales in Japan increased by 14,000 units (9.4%) year on year to 159,000 units. As a result of strong sales of the Impreza, which was given a full model change, the Levorg, and the Forester, ordinary passenger car unit sales rose by 15,000 units (13.3%) year on year to 126,000 units. Sales of minicars fell by 1,000 units (3.4%) to

33,000 units. Although the Chiffon, a new model, contributed to sales, sales of other minicar models declined.

Overseas Markets

Overseas unit sales increased by 93,000 units (11.4%) year on year to 906,000 units. At a time of sustained strong sales of the Outback in North America, an increase in production capacity at the production base in the U.S., SUBARU of Indiana Automotive, Inc. (SIA), contributed to the substantial increase in sales volume. In addition, sales of the Crosstrek (called the SUBARU XV outside North America) and the Forester remained strong throughout the fiscal year.

By region, sales volume increased by 90,000 units (14.3%) year on year to 721,000 units in North America, decreased by 1,000 units (2.6%) to 46,000 units in Europe and Russia, increased by 4,000 units (10.1%) to 49,000 units in Australia, and was mostly unchanged at 44,000 units in China and 46,000 units in other regions. Sales in North America reached a record high for the eighth consecutive year.

Financial Review

Aerospace Company

Net sales from the Aerospace Company were 138.8 billion yen, down 14.0 billion yen (9.2%) compared with the previous fiscal year, and segment income was 9.1 billion yen, down 9.1 billion yen (50.0%).

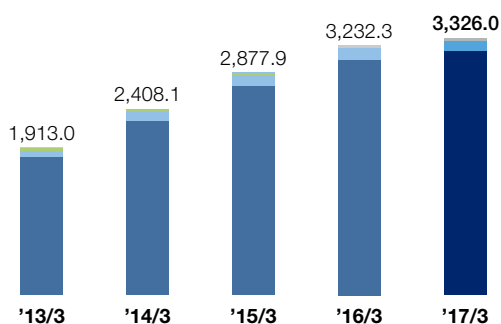
Sales of products for the Ministry of Defense increased year on year due to factors including the start of full-scale development under the new UH-X multipurpose helicopter contract. Sales of products for the commercial sector declined because of a dip in sales revenue due to currency fluctuations and due to a decrease in production of the Boeing 777.

Other Businesses

Net sales from Other Businesses were 35.3 billion yen, down 4.8 billion yen (11.9%) compared with the previous fiscal year, and segment income was 3.5 billion yen, up 0.5 billion yen (17.1%). Following a decision to terminate the industrial products business at a Board of Directors meeting held on November 2, 2016, that business has been included in the Other Businesses segment beginning in the fiscal year under review.

Net Sales by Segment (Billions of yen)

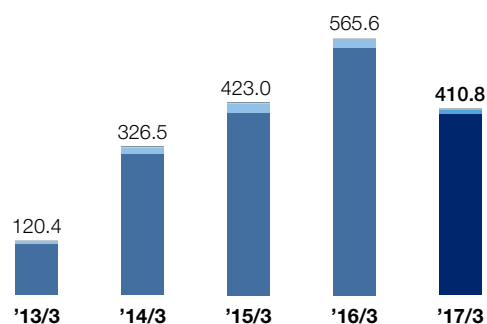
■ Automotive ■ Aerospace
■ Industrial products ■ Other



	(Billions of yen)				
	'13/3	'14/3	'15/3	'16/3	'17/3
Automotive	1,779.0	2,246.6	2,699.0	3,039.4	3,152.0
Aerospace	89.1	124.4	142.8	152.8	138.8
Industrial products	30.1	29.8	29.0	—	—
Other	14.7	7.3	7.1	40.0	35.3
Total	1,913.0	2,408.1	2,877.9	3,232.3	3,326.0

Operating Income by Segment (Billions of yen)

■ Automotive ■ Aerospace ■ Industrial products
■ Other ■ Corporate and elimination



	(Billions of yen)				
	'13/3	'14/3	'15/3	'16/3	'17/3
Automotive	111.0	309.0	400.9	543.6	397.7
Aerospace	6.8	14.1	18.9	18.2	9.1
Industrial products	0.6	0.6	0.8	—	—
Other	1.6	2.1	1.9	3.0	3.5
Corporate and elimination	0.4	0.6	0.6	0.8	0.5
Total	120.4	326.5	423.0	565.6	410.8

*Accompanying the decision in November 2016 to terminate the Industrial Products business, the former Industrial Products reportable segment has been included in Other Businesses beginning in FYE March 2017. Figures for FYE March 2016 have been restated on the basis of the revised segments.

Liquidity and Source of Funds

Financial Position

Total assets as of March 31, 2017 were 2,762.3 billion yen, an increase of 169.9 billion yen compared with the previous fiscal year-end.

Current assets were 1,845.3 billion yen, up 61.2 billion yen from the previous fiscal year-end, and noncurrent assets were 917.1 billion yen, up 108.8 billion yen. Under current assets, funds in hand (the sum of cash and deposits and short-term investment securities) decreased by 28.7 billion yen, while merchandise and finished goods increased by 13.3 billion yen, and short-term loans receivable increased by 24.5 billion yen. Under noncurrent assets, property, plant and equipment increased by 84.6 billion yen.

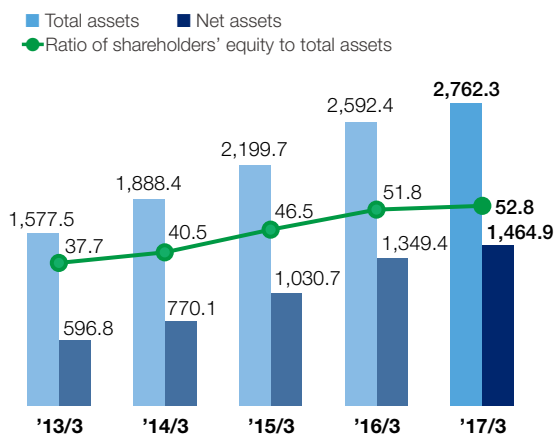
Total liabilities were 1,297.4 billion yen, up 54.4 billion yen

from the previous fiscal year-end. Trade payables (the sum of notes and accounts payable-trade and electronically recorded obligations-operating) and accrued expenses increased by 23.7 billion yen and 88.6 billion yen, respectively, while income taxes payable decreased by 86.4 billion yen.

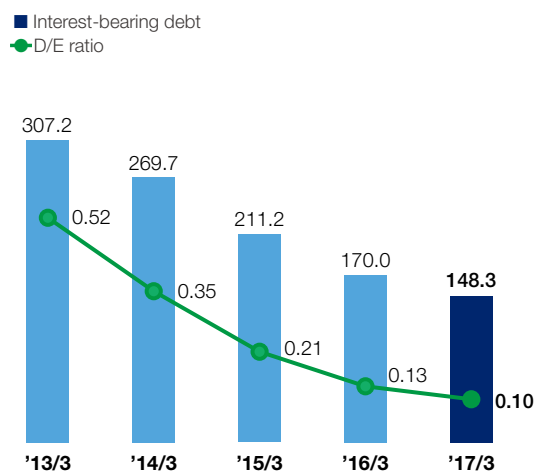
The fiscal year-end balance of interest-bearing debt decreased by 21.7 billion yen from the previous fiscal year-end to 148.3 billion yen. The debt/equity ratio (interest-bearing debt over shareholders' equity) was 0.10, remaining at a safe level.

Net assets were 1,464.9 billion yen, an increase of 115.5 billion yen compared with the previous fiscal year-end. Retained earnings increased by 124.3 billion yen due to factors including the recording of net income. The shareholders' equity ratio increased by 1.0 point year on year to 52.8%.

□ Total Assets (Billions of yen)/Net Assets (Billions of yen)/ Ratio of Shareholders' Equity to Total Assets (%)



□ Interest-Bearing Debt (Billions of yen) D/E Ratio (Times)



Cash Flows

In the fiscal year under review, net cash provided by operating activities was 345.4 billion yen, compared with 614.3 billion yen provided in the previous fiscal year. Income before income taxes and minority interests was 394.7 billion yen, accrued expenses increased 88.2 billion yen, and income taxes paid were 208.2 billion yen.

Net cash used in investing activities was 254.3 billion yen in the fiscal year under review, compared with 255.7 billion yen used in the previous fiscal year. Purchase of short-term investment securities (net of proceeds from sales of short-term investment securities) was 36.9 billion yen, purchase of noncurrent assets (net of proceeds from sales) was 162.4 billion

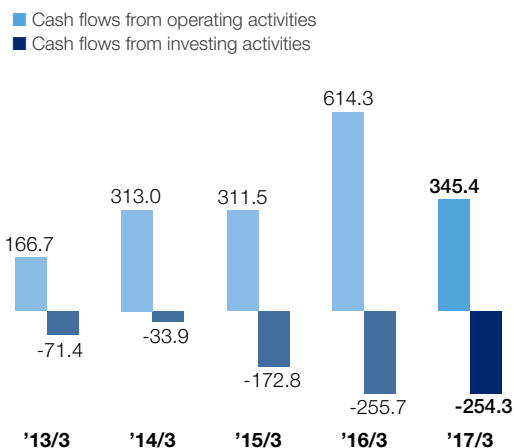
yen, and payments of loans receivable (net of collection) were 19.3 billion yen.

As a result, free cash flow was 91.2 billion yen, compared with 358.6 billion yen in the previous fiscal year.

Net cash used in financing activities totaled 189.0 billion yen, compared with 126.2 billion yen in the previous fiscal year. Repayments of long-term loans payable (net of proceeds) were 21.7 billion yen, purchase of treasury stock was 52.7 billion yen, and cash dividends paid were 111.4 billion yen.

As a result of the above cash flows, including the effect of translation adjustments, cash and cash equivalents at the end of the fiscal year under review were 728.6 billion yen.

□ Cash Flows from Operating Activities and Investing Activities (Billions of yen)



□ Free Cash Flow (Billions of yen)



Financial Review

Research and Development Expenses

In the fiscal year under review, R&D expenses increased by 11.8 billion yen (11.5%) compared with the previous fiscal year to 114.2 billion yen. Of that amount, 111.2 billion yen was related to the automotive business.

Automotive R&D was for the purpose of developing products that exceed customer expectations for enjoyment and peace of mind, and focused on six initiatives to enhance the SUBARU brand. In addition, the Group sought to strengthen the foundation for product development capabilities through cost reduction, human resource development, and other measures as part of eight initiatives for building a strong business structure.

In October 2016 the Group began sales in Japan of the all-new Impreza, featuring the SUBARU Global Platform, Japan's first pedestrian protection airbags, and EyeSight (ver. 3) on all models. Subsequently, the Group has begun sequentially introducing the new Impreza in other countries around the world. The SUBARU Global Platform, a core technology that will underpin the next generation of SUBARU automobiles, will be incorporated in all new models brought to market.

In the area of safety, the Group is evolving driver assist systems, focusing on EyeSight, with the aim of providing the ultimate in advanced safe driving assistance to completely eliminate traffic accidents.

In terms of environmental initiatives, the Group is developing products including a new downsized turbo engine and plug-in hybrid (PHEV) and electric vehicles (EV) to comply with the Zero Emission Vehicle* (ZEV) Regulations* in California.

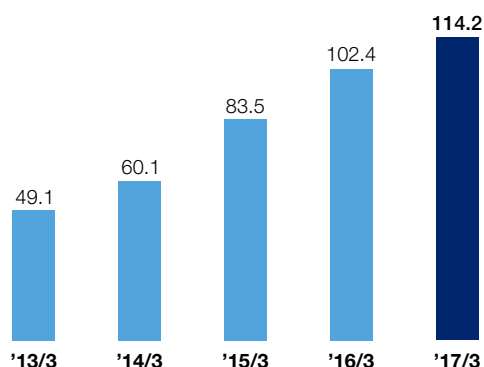
In addition, the Group plans to introduce the Ascent, a 3-row crossover SUV for the North American market.

To further accelerate development of future products, in FYE March 2018 the Group plans to boost R&D spending 19.8 billion yen (17.3%) year on year to 134.0 billion yen.

*Regulations requiring that a certain proportion of the vehicles sold by an automaker emit no greenhouse gases

Research and Development Expenses

(Billions of yen)



Capital Expenditures and Depreciation

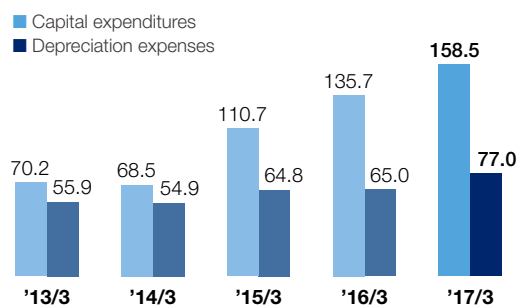
In the fiscal year under review the Group made capital expenditures of 158.5 billion yen, an increase of 22.8 billion yen (16.8%) compared with the previous fiscal year. The main expenditures were related to production, R&D, and sales facilities in the automotive business.

The Company made investments of 65.1 billion yen in the automotive business, primarily for augmenting production capacity accompanying an increase in unit sales and for developing and expanding production facilities for new products, R&D facilities, and sales networks. SUBARU of Indiana Automotive, Inc. (SIA) made investments of 48.4 billion yen, mainly for production facilities to boost production capacity.

Depreciation expenses in the fiscal year under review increased by 12.0 billion yen (18.5%) year on year to 77.0 billion yen.

Capital expenditures in FYE March 2018 are projected to decrease by 8.5 billion yen (5.4%) year on year to 150.0 billion yen, and depreciation expenses are projected to increase by 15.0 billion yen (19.5%) to 92.0 billion yen.

Capital Expenditures (Billions of yen) Depreciation Expenses (Billions of yen)



Basic Policy on Profit Distribution and Dividends for FYE 2017 and FYE 2018

The Company regards shareholder interests as an important management priority and applies a performance-linked approach to shareholder returns of maintaining a basic policy of paying continuous dividends while considering business performance, investment plans, and the business environment. The Company determines dividend payments for each fiscal year based on a consolidated dividend payout ratio range of 20–40%, taking a variety of conditions into consideration.

In light of these considerations, the Company paid an annual dividend of 144 yen per share for the fiscal year under review, the same as the previous fiscal year. Internal reserves are allocated to investments for future growth, such as strengthening of R&D and production and sales systems for the

purpose of offering appealing products, while bolstering the financial position.

For FYE March 2018, the Company plans to pay a dividend of 144 yen per share (half-year and year-end dividends of 72 yen), the same as for the year under review. The Company will determine dividends for FYE 2018 and subsequent years based on a consolidated dividend payout ratio range of 30–50% after considering various circumstances.

Business Performance in FYE March 2018

The Company plans to increase consolidated sales volume in the domestic and overseas markets, mainly in North America,

Forecast of Consolidated Business Performance

(Billions of yen)			
	'17/3	'18/3 (plan)	Change
Net sales	3,326.0	3,420.0	94.0
Japan	650.3	668.0	17.6
Overseas	2,675.6	2,752.0	76.4
Operating income	410.8	410.0	-0.8
Ordinary income	394.3	410.0	15.7
Income before income taxes	394.7	403.0	8.3
Net income attributable to owners of parent	282.4	285.0	2.6
Exchange rates (in yen)			
¥/\$	108	110	2
¥/€	119	120	1

Forecast of Consolidated Automobile Sales

(Thousand units)			
	'17/3	'18/3 (plan)	Change
Domestic			
Passenger cars	126.4	134.2	7.8
Minicars	32.5	37.8	5.3
Subtotal	158.9	172.1	13.1
Overseas			
United States	667.6	687.7	20.1
Canada	53.1	54.6	1.5
Russia	5.3	6.6	1.3
Europe	40.9	39.2	-1.7
Australia	49.1	52.6	3.5
China	44.0	42.3	-1.7
Other	45.6	50.5	4.9
Subtotal	905.6	933.4	27.8
Total	1,064.5	1,105.5	41.0

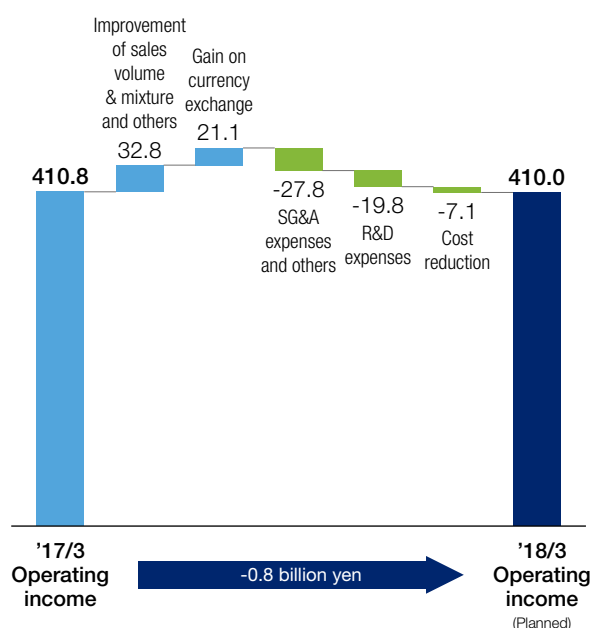
and achieve record-high automobile unit sales, forecasting consolidated net sales of 3,420.0 billion yen. With regard to consolidated profit and loss, the Company forecasts operating income of 410.0 billion yen, ordinary income of 410.0 billion yen, and net income attributable to owners of parent of 285.0 billion yen to result from increases in SGA expenses, R&D expenses, and other costs, despite the positive impact from the projected increase in automobile sales volume. The exchange rate assumptions used for the full-year forecast of consolidated business performance are 110 yen/US\$1 (actual rate of 108 yen in FYE 2017) and 120 yen/€1 (119 yen in FYE 2017).

Future Outlook

To achieve sustained growth in preparation for realizing the corporate vision for 2020 articulated in “Prominence 2020,” the mid-term management vision announced in 2014, the SUBARU Group will implement measures centered on two initiatives: enhancement of the SUBARU brand and building a strong business structure.

The Group aims to establish a highly profitable business model capable of sustaining its industry-leading profit margin while achieving consolidated global automobile sales of upward of 1.2 million vehicles in 2020 and continuing investments for sustained growth in areas such as R&D expenses and capital expenditures.

Factors Affecting Operating Income in FYE March 2018 (Consolidated) (Billions of yen)



Business Risks

Operational and other risks that could significantly influence the decisions of investors and impact the Company's financial status are set out below.

Based on information available to the Group as of the end of the consolidated fiscal year under review, the enumerated risks include forward-looking statements, but do not encompass every possible risk posed to the Group. As such, there are other risk factors which could influence investors and their decisions.

(1) Economic Trends

Economic trends in countries and regions that comprise important markets for the Group could potentially impact the Group's business performance. In Japan and North America, key markets for the Group, economic recession, decreasing demand or increasing price competition could undermine the sales and profitability of the Group's products and services.

(2) Currency Exchange Rate Fluctuations

The Group's ratio of overseas net sales stood at 80.4%. The Group's consolidated financial statements, which are presented in Japanese yen, are affected by translation of overseas net sales, operating income and assets from local currencies, particularly U.S. dollars, into yen. Accordingly, in the event that discrepancies arise between projected exchange rates in full-year forecasts and actual rates at the time of account settlement, the Group's business performance and financial position may be adversely affected when the yen appreciates or positively affected when the yen depreciates.

The Company uses forward exchange rate contracts and other circumstance-appropriate risk hedges to minimize the Group's sensitivity to such currency exchange risks. However, the effect of severe fluctuations in currency exchange rates at the end of the fiscal year could result in a loss on valuation of derivatives and have a major impact on non-operating expenses.

(3) Dependence on Certain Businesses

The Group is mainly comprised of the Automobiles and Aerospace business segments. However, the Automobiles business segment accounts for the overwhelming majority of the Group's business operations. Accordingly, in the event that automobile-related demand, market conditions, price competition with other automakers, or other factors exceed projected levels, the entire Group's overall business performance and financial position could be significantly affected.

(4) Changes in Market Appraisal

The Group develops, manufactures and releases new products based on appropriate timing and pricing in line with product planning that reflects market demand and customer needs. Such actions are the most important factors in maintaining stable increases in Group business performance. In the event that market appraisals of new model vehicles and other new products do not meet sales plan expectations or that the obsolescence rate of current products exceeds forecasts, the Group's business performance and financial position could be significantly affected.

(5) Dependence on Specific Suppliers, Raw Materials, and Components

The Group procures raw materials, components and other items from numerous suppliers. However, there are cases in which the Group relies on certain items and/or a limited number of suppliers. Due to tightening supply and demand or other factors, the inability to procure supplies in a manner that ensures stable costs, delivery dates and quality could seriously impact the Group's business performance and financial position.

(6) Protection of intellectual property

The Group is strongly committed to protecting its intellectual property in areas, such as technologies and expertise, that ensure product differentiation. However, in cases where a third party makes unauthorized use of the Group's intellectual property to manufacture similar products and in cases where a dispute relating to intellectual property arises and a decision disadvantageous to the Company is made, the Group's business results and financial condition may be significantly affected.

(7) Product Defects

The Group places the highest priority on the safety of the products it develops, manufactures and sells. However, completely avoiding defects and recalls, etc. regarding all products and services is impossible. The substantial cost, damage to our brand image, etc. associated with a major recall could significantly affect the Group's business performance and financial position.

(8) Retirement Benefits and Retirement Benefit Obligations

The Group's employee retirement benefit costs and obligations are calculated based on the following assumptions: retirement benefit obligation discount rates and the expected long-term rate of return on pension assets, both of which are established based on mathematical calculations. However, in the event that actual performance differs from the assumptions, the Group's business performance and financial position could be affected over the long term.

(9) Environmental and Other Legal Regulations

The Group is subject to various domestic and overseas legal regulations in relation to such areas as exhaust emissions, energy conservation, noise, recycling, the level of pollutants emitted from manufacturing facilities, and safety of automobiles and other products. The Group's business performance and financial position could be affected by an increase in costs due to future regulatory changes.

(10) The Impact of Natural Disasters, War, Terror, Strikes and Other Events

The occurrence of natural disasters such as major earthquakes, typhoons, etc., and diseases, wars, terrorist attacks or other events, could impede the Group's business activities as well as delay or suspend raw material/component purchases, production, product sales/transport, and the provision of services. The Group's business performance and financial position could be affected in the event that such delays or suspensions are prolonged.

Corporate Data/Stock Information

Corporate Data (as of March 31, 2017)

Company Name

SUBARU CORPORATION

Established

July 15, 1953

Paid-In Capital

¥153,795 million

Fiscal Year-End

March 31

Accounting Auditors

KPMG AZSA LLC

Main Businesses

Automotive: The manufacture, sale, and repair of passenger cars and their components

Aerospace: The manufacture, sale, and repair of airplanes, aerospace-related machinery and their components

Number of Affiliates

77 consolidated subsidiaries and 2 equity-method affiliated companies

Number of Employees (excluding executive officers, advisors and dispatches)

14,708 (consolidated: 32,599)

Website Addresses

Corporate website: <https://www.subaru.co.jp/en/>

Investor information website: <https://www.subaru.co.jp/en/ir/>

Stock Information (as of March 31, 2017)

Common Stock Authorized

1,500,000,000 shares

Common Stock Issued

769,175,873 shares

Number of Shareholders

82,017

Number of Shares per Trading Unit

100 shares

Stock Exchange Listing

Tokyo Stock Exchange

Securities Code

7270

Transfer Agent

Mizuho Trust & Banking Co., Ltd.

2-1, Yaesu 1-chome, Chuo-ku,

Tokyo 103-8670, Japan

Telephone: 0120-288-324 (toll-free)

Breakdown of Shareholders

Securities companies

31,611,000 shares

4.1%

Individuals and others

63,272,000 shares

8.2%

Japanese corporations and others

157,382,000 shares

20.5%

Treasury stock

2,090,000 shares

0.3%

Foreign institutions and others

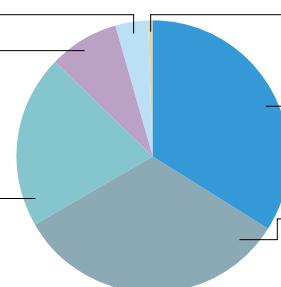
261,315,000 shares

34.0%

Financial institutions

253,502,000 shares

33.0%



Major Shareholders

Name	Number of Shares Held (in thousands)	Percentage of Total Shares Held
Toyota Motor Corporation	129,000	16.82
The Master Trust Bank of Japan, Ltd. (Trust account)	50,011	6.52
Japan Trustee Services Bank, Ltd. (Trust account)	43,621	5.69
Japan Trustee Services Bank, Ltd. (Trust account 5)	11,406	1.49
Mizuho Bank, Ltd.	10,078	1.31
MIZUHO SECURITIES ASIA LIMITED-CLIENT A/C 69250601	9,902	1.29
Sompo Japan Nipponkoa Insurance Inc.	9,726	1.27
FHI's Client Stock Ownership	9,635	1.26
Nippon Life Insurance Company	9,511	1.24
Tokio Marine & Nichido Fire Insurance Co., Ltd.	9,265	1.21

*The Percentage of Total Shares Held are calculated based on the number of shares excluding treasury stock.

Contact for inquiries:

Investor Relations,

Corporate Communications Dept., SUBARU CORPORATION

Address: Ebisu Subaru Bldg., 1-20-8, Ebisu, Shibuya-ku, Tokyo 150-8554

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SUBARU CORPORATION

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<http://www.subaru.co.jp/en/ir/>

Consolidated Balance Sheets

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2017 and 2016

ASSETS	Millions of yen		Thousands of U.S. dollars
	2017	2016	(Note 1) 2017
Current assets:			
Cash and deposits (Note 4 and 5)	¥658,822	¥507,553	\$5,871,854
Notes and accounts receivable-trade (Note 5)	158,454	140,319	1,412,246
Lease investment assets (Note 5 and 18)	18,538	21,532	165,223
Short-term investment securities (Notes 4, 5 and 6)	320,579	500,572	2,857,210
Merchandise and finished goods	205,991	192,705	1,835,927
Work in process	51,754	50,666	461,266
Raw materials and supplies	43,586	34,996	388,467
Deferred tax assets (Note 12)	109,600	90,893	976,827
Short-term loans receivable (Note 5)	176,433	151,973	1,572,487
Other current assets	102,045	93,509	909,492
Allowance for doubtful accounts	(551)	(625)	(4,912)
Total current assets	1,845,251	1,784,093	16,446,087
Property, plant and equipment (Notes 7 and 9)	1,622,363	1,485,530	14,459,563
Accumulated depreciation	(937,015)	(886,905)	(8,351,292)
Accumulated impairment loss	(28,083)	(25,992)	(250,294)
Total property, plant and equipment	657,265	572,633	5,857,977
Investments and other assets:			
Intangible assets	24,905	20,989	221,970
Investment securities (Note 5 and 6)	104,278	106,987	929,394
Investments in non-consolidated subsidiaries and affiliated companies	4,006	5,415	35,704
Net defined benefit assets (Note 11)	931	1,774	8,298
Deferred tax assets (Note 12)	20,922	16,339	186,471
Other assets	108,074	87,607	963,226
Allowance for doubtful accounts	(3,311)	(3,427)	(29,510)
Total investments and other assets	259,805	235,684	2,315,553
Total assets	¥2,762,321	¥2,592,410	\$24,619,617

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current liabilities:			
Notes and accounts payable-trade (Note 5)	¥349,737	¥326,625	\$3,117,086
Electronically recorded obligations-operating (Note 5)	92,098	91,476	820,838
Short-term loans payable (Note 5 and 7)	43,205	33,252	385,071
Current portion of long-term debts (Note 5 and 7)	44,443	43,692	396,105
Accrued expenses (Note 5)	221,328	132,759	1,972,620
Provision for bonuses	23,678	23,554	211,034
Provision for product warranties	59,259	51,251	528,155
Accrued income taxes (Note 5 and 12)	13,858	100,272	123,512
Provision for loss on business liquidation	3,317	-	29,563
Other current liabilities (Note 5, 7 and 12)	162,815	156,614	1,451,113
Total current liabilities	1,013,738	959,495	9,035,097
Long-term liabilities:			
Long-term debts (Note 5 and 7)	60,612	93,030	540,214
Net defined benefit liability (Note 11)	18,615	18,586	165,909
Deferred tax liabilities (Note 12)	29,802	18,769	265,615
Other long-term liabilities (Note 7)	174,666	153,119	1,556,738
Total long-term liabilities	283,695	283,504	2,528,476
Contingent liabilities (Note 20)			
Net assets: (Note 13)			
Shareholders' equity:			
Capital stock			
Authorized— 1,500,000,000 shares			
Issued — 769,175,873 shares	153,795	153,795	1,370,722
Capital surplus	160,178	160,071	1,427,612
Retained earnings	1,173,277	1,049,016	10,457,015
Less—treasury stock, at cost,	(7,173)	(1,402)	(63,931)
2017— 2,490,224 shares			
2016— 2,487,843 shares			
Total shareholders' equity	1,480,077	1,361,480	13,191,418
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	8,099	11,344	72,183
Foreign currency translation adjustments	(16,631)	(13,415)	(148,226)
Remeasurements of defined benefit plans	(10,996)	(12,808)	(98,003)
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries	(1,885)	(2,869)	(16,800)
Total accumulated other comprehensive income	(21,413)	(17,748)	(190,846)
Non-controlling interests	6,224	5,679	55,472
Total net assets	1,464,888	1,349,411	13,056,044
Total liabilities and net assets	¥2,762,321	¥2,592,410	\$24,619,617

The accompanying notes are an integral part of these balance sheets.

Consolidated Statements of Income

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales (Note 2)	¥3,325,992	¥3,232,258	\$29,643,422
Cost of sales (Note 14)	2,386,266	2,187,136	21,267,967
Gross profit	939,726	1,045,122	8,375,455
Selling, general and administrative expenses (Note 2 and 15)	528,916	479,533	4,714,047
Operating income	410,810	565,589	3,661,408
Other income (expenses):			
Interest and dividend income	4,616	5,190	41,142
Interest expenses	(1,846)	(2,499)	(16,453)
Equity in earnings of affiliates	292	739	2,602
Foreign exchange gains (losses)	(4,800)	(2,056)	(42,781)
Gain (loss) on valuation of derivatives	(4,248)	9,883	(37,861)
Gain (loss) on sales and retirement of noncurrent assets	(3,270)	(4,530)	(29,144)
Gain (loss) on sales of investment securities (Note 6)	10,144	2,430	90,410
Reversal of allowance for doubtful accounts	-	30,152	-
Depreciation	(956)	(981)	(8,520)
Cost of Settlement	(7,659)	-	(68,262)
Impairment loss (Note 9)	(1,188)	(11)	(10,588)
Loss on business liquidation	(5,122)	-	(45,651)
Other, net	(2,078)	15,097	(18,521)
	(16,115)	53,414	(143,627)
Income before income taxes	394,695	619,003	3,517,781
Income taxes (Note 12):			
Current	123,591	191,168	1,101,523
Deferred	(12,448)	(8,524)	(110,943)
	111,143	182,644	990,580
Net income	283,552	436,359	2,527,201
Net income (loss) attributable to non-controlling Interests	1,198	(295)	10,677
Net income attributable to owners of the parent	¥282,354	¥436,654	\$2,516,524

	Yen		U.S. dollars (Note 1)
	2017	2016	2017
Per share data (Note 2) :			
Net income (loss)			
—Basic	¥365.77	¥559.54	\$3.26
—Diluted *	-	-	-
Net assets	1,902.56	1,721.90	16.96
Cash dividends (Note 13)	¥144.00	¥144.00	\$1.28

The accompanying notes are an integral part of these statements.

*For the year ended March 31, 2017 and 2016 diluted information is not presented because potentially dilutive securities do not exist.

Consolidated Statements of Comprehensive Income(loss)

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net Income	¥283,552	¥436,359	\$2,527,201
Other comprehensive income(loss) (Note 3)			
Valuation difference on available-for-sale securities	(3,245)	(6,642)	(28,922)
Foreign currency translation adjustments	(2,968)	(23,777)	(26,453)
Remeasurements of defined benefit plans	1,812	(1,192)	16,150
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries	984	1,007	8,770
Share of other comprehensive income (loss) of associates accounted for using equity method	(783)	(52)	(6,978)
Total other comprehensive income(loss)	(4,200)	(30,656)	(37,433)
Comprehensive income(loss)	¥279,352	¥405,703	\$2,489,768
Comprehensive income (loss) attributable to:			
Owners of the parent	278,689	406,387	2,483,859
Non-controlling interests	¥663	(¥684)	\$5,909

Consolidated Statements of Changes in Net Assets

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

As of March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Shareholders' equity			
Capital stock			
Balance at the beginning of current period	¥153,795	¥153,795	\$1,370,722
Balance at the end of current period	153,795	153,795	1,370,722
Capital surplus			
Balance at the beginning of current period	160,071	160,071	1,426,658
Changes of items during the period			
Disposal of treasury stock	1	0	9
Retirement of treasury shares	(46,973)	-	(418,654)
Transfer to capital surplus from retained earnings	46,972	-	418,645
Other	107	-	954
Total changes of items during the period	107	0	954
Balance at the end of current period	160,178	160,071	1,427,612
Retained earnings			
Balance at the beginning of current period	1,049,016	697,414	9,349,519
Changes of items during the period			
Dividends from surplus	(111,446)	(85,105)	(993,280)
Net income attributable to owners of the parent	282,354	436,654	2,516,524
Disposal of treasury stock	(1)	(1)	(9)
Change of scope of equity method	325	-	2,897
Transfer to capital surplus from retained earnings	(46,972)	-	(418,645)
Other	1	54	9
Total changes of items during the period	124,261	351,602	1,107,496
Balance at the end of current period	1,173,277	1,049,016	10,457,015
Treasury stock			
Balance at the beginning of current period	(1,402)	(1,382)	(12,496)
Changes of items during the period			
Purchase of treasury stock	(52,744)	(20)	(470,089)
Disposal of treasury stock	0	0	0
Retirement of treasury shares	46,973	-	418,654
Other	-	-	-
Total changes of items during the period	(5,771)	(20)	(51,435)
Balance at the end of current period	(7,173)	(1,402)	(63,931)
Total shareholders' equity			
Balance at the beginning of current period	1,361,480	1,009,898	12,134,403
Changes of items during the period			
Dividends from surplus	(111,446)	(85,105)	(993,280)
Net income attributable to owners of the parent	282,354	436,654	2,516,524
Purchase of treasury stock	(52,744)	(20)	(470,089)
Disposal of treasury stock	0	(1)	0
Change of scope of equity method	325	-	2,897
Other	108	54	963
Total changes of items during the period	118,597	351,582	1,057,015
Balance at the end of current period	¥1,480,077	¥1,361,480	\$13,191,418

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2017	2016	2017
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of current period	¥11,344	¥17,986	\$101,105
Changes of items during the period			
Net changes of items other than shareholders' equity	(3,245)	(6,642)	(28,922)
Total changes of items during the period	(3,245)	(6,642)	(28,922)
Balance at the end of current period	8,099	11,344	72,183
Foreign currency translation adjustments			
Balance at the beginning of current period	(13,415)	10,025	(119,563)
Changes of items during the period			
Net changes of items other than shareholders' equity	(3,216)	(23,440)	(28,663)
Total changes of items during the period	(3,216)	(23,440)	(28,663)
Balance at the end of current period	(16,631)	(13,415)	(148,226)
Remeasurements of defined benefit plans			
Balance at the beginning of current period	(12,808)	(11,616)	(114,153)
Changes of items during the period			
Net changes of items other than shareholders' equity	1,812	(1,192)	16,150
Total changes of items during the period	1,812	(1,192)	16,150
Balance at the end of current period	(10,996)	(12,808)	(98,003)
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries			
Balance at the beginning of current period	(2,869)	(3,876)	(25,570)
Changes of items during the period			
Net changes of items other than shareholders' equity	984	1,007	8,770
Total changes of items during the period	984	1,007	8,770
Balance at the end of current period	(1,885)	(2,869)	(16,800)
Total accumulated other comprehensive income			
Balance at the beginning of current period	(17,748)	12,519	(158,181)
Changes of items during the period			
Net changes of items other than shareholders' equity	(3,665)	(30,267)	(32,665)
Total changes of items during the period	(3,665)	(30,267)	(32,665)
Balance at the end of current period	(21,413)	(17,748)	(190,846)
Non-controlling interests			
Balance at the beginning of current period	5,679	8,302	50,615
Changes of items during the period			
Net changes of items other than shareholders' equity	545	(2,623)	4,857
Total changes of items during the period	545	(2,623)	4,857
Balance at the end of current period	6,224	5,679	55,472
Total net assets			
Balance at the beginning of current period	1,349,411	1,030,719	12,026,837
Changes of items during the period			
Dividends from surplus	(111,446)	(85,105)	(993,280)
Net income attributable to owners of the parent	282,354	436,654	2,516,524
Purchase of treasury stock	(52,744)	(20)	(470,089)
Disposal of treasury stock	0	(1)	0
Change of scope of equity method	325	-	2,897
Other	108	54	963
Net changes of items other than shareholders' equity	(3,120)	(32,890)	(27,808)
Total changes of items during the period	115,477	318,692	1,029,207
Balance at the end of current period	¥1,464,888	¥1,349,411	\$13,056,044

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2017 and 2016

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2017	2016	2017
Net cash provided by (used in) operating activities			
Income before income taxes	¥394,695	¥619,003	\$3,517,781
Depreciation and amortization	85,653	72,938	763,396
Increase (decrease) in allowance for doubtful accounts	(189)	(30,260)	(1,684)
Interest and dividends income	(4,616)	(5,190)	(41,141)
Interest expenses	1,846	2,499	16,453
Increase (decrease) in provision for loss on business liquidation	3,317	-	29,563
Loss (gain) on sales and retirement of noncurrent assets	3,270	4,530	29,144
Loss (gain) on sales and valuation of investment securities	(9,322)	2,957	(83,084)
Decrease (increase) in operating loans receivable	(3,898)	(6,540)	(34,742)
Decrease (increase) in notes and accounts receivable-trade	(19,684)	22,791	(175,437)
Decrease (increase) in inventories	(32,444)	(1,342)	(289,162)
Increase (decrease) in notes and accounts payable-trade	24,458	30,082	217,986
Increase (decrease) in accrued expenses	88,159	(11,792)	785,731
Other, net	19,003	7,674	169,367
	Sub-total	707,350	4,904,171
Interest and dividends income received	5,236	5,668	46,667
Interest expenses paid	(1,852)	(2,528)	(16,506)
Proceeds from compensation for damage	-	48,184	-
Income taxes paid	(208,190)	(144,418)	(1,855,526)
	Net cash provided by (used in) operating activities	614,256	3,078,806
Net cash provided by (used in) investing activities			
Net decrease (increase) in time deposits	(25,809)	(101,631)	(230,027)
Purchase of short-term investment securities	(135,061)	(48,845)	(1,203,752)
Proceeds from sales of short-term investment securities	98,133	47,032	874,626
Purchase of non-current assets	(163,774)	(126,732)	(1,459,661)
Proceeds from sales of non-current assets	1,327	975	11,827
Purchase of investment securities	(48,705)	(47,005)	(434,091)
Proceeds from sales of investment securities	46,585	25,240	415,196
Payments of loans receivable	(137,006)	(106,117)	(1,221,087)
Collection of loans receivable	117,687	108,636	1,048,904
Other, net	(7,629)	(7,229)	(67,996)
	Net cash provided by (used in) investing activities	(255,676)	(2,266,061)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	9,939	(7,822)	88,583
Proceeds from long-term loans payable	12,930	11,760	115,241
Repayments of long-term loans payable	(34,605)	(44,797)	(308,422)
Redemption of bonds	(10,000)	-	(89,127)
Purchase of treasury shares	(52,744)	(20)	(470,089)
Cash dividends paid	(111,435)	(84,938)	(993,182)
Dividends paid to non-controlling interests	(1,944)	-	(17,326)
Other, net	(1,185)	(373)	(10,562)
	Net cash provided by (used in) financing activities	(126,190)	(1,684,884)
Effect of exchange rate change on cash and cash equivalents	(2,991)	(14,887)	(26,658)
Net increase (decrease) in cash and cash equivalents	(100,845)	217,503	(898,797)
Cash and cash equivalents at beginning of the period	829,461	612,085	7,392,701
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	-	(127)	-
Cash and cash equivalents at end of the period	¥728,616	¥829,461	\$6,493,904

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Basis of Presentation of the Financial Statements

The accompanying consolidated financial statements of SUBARU CORPORATION (the "Company") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance, as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese-language consolidated financial statements, but not considered necessary for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars in the accompanying consolidated financial statements are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was ¥112.20 to U.S. \$1. The convenience translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

[1] The Scope of Consolidation and Application of the Equity Method

The accompanying consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The fiscal year-end of consolidated subsidiaries is the same as that of the parent company, except for 4 consolidated foreign subsidiaries in fiscal year 2017 and 4 consolidated foreign subsidiaries in fiscal year 2016, respectively, the fiscal year-end of those subsidiaries is December 31. The operating results of those subsidiaries that have different fiscal year-end are consolidated by using the financial statements as of each subsidiary's respective fiscal year-end, the necessary adjustments being made in consolidation if there are any significant transactions between January 1 and March 31.

The consolidated financial statements include the accounts of the Company and 77 subsidiaries in fiscal year 2017 and 77 subsidiaries in fiscal year 2016, respectively.

In addition, 2 affiliated companies were accounted for by the equity method in fiscal 2017, 1 non-consolidated subsidiary and 1 affiliated companies were accounted for by the equity method in fiscal 2016, respectively.

Investments in insignificant non-consolidated subsidiary and affiliated companies not accounted for by the equity method are carried at cost.

[2] Short-Term Investment Securities and Investment Securities

Under the Japanese accounting standards for financial instruments, available-for-sale securities for which fair values are available are stated at their fair value as of the balance sheet dates with unrealized holding gains and losses included as a separate component of net assets until realized, while securities for which fair values are not readily available are stated at cost, as determined by the moving-average method, after taking into consideration devaluation, if any, for permanent impairment. Held-to-maturity debt securities are stated using the amortized cost method.

[3] Inventories

Inventories for regular sales are stated at cost, determined mainly by the moving-average cost method. (Book value on the balance sheet is measured based on the lower of cost or market value.)

[4] Property, Plant and Equipment (Excluding Leased Assets)

Property, plant and equipment are stated at cost. Significant renewals and additions are capitalized; ordinary maintenance, ordinary repairs, minor renewals and minor improvements are charged to the consolidated statements of income as incurred.

Depreciation of the property, plant and equipment of the Company and its consolidated domestic subsidiaries is principally calculated by the declining-balance method, except for those buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016 for which the straight-line method is applied.

Depreciation of the property, plant and equipment of consolidated foreign subsidiaries is calculated by the straight-line method over the estimated useful lives of the assets.

Estimated useful lives for depreciable assets are as follows:

Buildings and structures: 7–50 years

Machinery, equipment and vehicles: 2–20 years

[5] Intangible Assets (Excluding Leased Assets)

Computer software used internally by the Company and its consolidated subsidiaries is amortized by the straight-line method over the relevant economic useful lives of 3 or 5 years.

[6] Leased Assets

For leased assets under finance lease transactions in which the ownership is transferred to the lessee:

The leased assets are depreciated by the same method as used for other property, plant and equipment.

For leased assets under finance lease transactions in which the ownership is not transferred to the lessee: The leased assets are depreciated by the straight-line method over the leased period and the residual value is zero.

[7] Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on the amount calculated from the historical ratio of bad debt for ordinary receivables, and estimated amounts of uncollectible accounts for specific overdue receivables.

[8] Provision for Bonuses

Employees' bonuses are recognized as expenses for the period in which those are incurred.

[9] Provision for Product Warranties

The Company and its consolidated subsidiaries provide for accrued warranty claims on products sold based on their past experiences of warranty services and estimated future warranty costs, which are included in "Accrued expenses" in the accompanying consolidated balance sheets.

[10] Provision for Loss on Construction Contracts

The provision for losses on uncompleted construction of contracts in the Aerospace segment is provided when substantial losses on the contracts are anticipated at the fiscal year-end for the next fiscal year and beyond and such losses can be reasonably estimated.

[11] Provision for Loss on business liquidation

The provision for losses on business liquidation is provided due to important business liquidation.

[12] Accounting method for Retirement Benefits

Net defined benefit liability (assets) for employees is provided based on the estimated amounts of projected pension and severance obligation and the fair value of plan assets at the end of the fiscal year. In determining retirement benefit obligations, the straight-line basis is used for attributing expected benefit to periods.

Unrecognized prior service cost is being amortized on the straight-line method over a period (13-18 years) that is shorter than the average remaining service period of the eligible employees. Unrecognized net actuarial gain or loss is amortized from the following fiscal year on the straight-line method over a period (primarily 16 years for fiscal years 2017 and 2016) that is shorter than the average remaining service period of the eligible employees.

Directors and statutory auditors of the Company and its consolidated domestic subsidiaries are entitled to receive a lump-sum payment at the time of severance or retirement, subject to shareholder approval. The liabilities for such benefits, which are determined based on the Company's and its consolidated subsidiaries' internal rules, are included in "Other long-term liabilities" in the accompanying consolidated balance sheets.

[13] Translation of Foreign Currency-Denominated Accounts

Under the Japanese accounting standards for foreign currency translation, monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at each balance sheet date with the resulting gain or loss included currently in the statement of income.

The assets and liabilities of foreign subsidiaries and affiliated companies are translated into Japanese yen at the exchange rates in effect at the balance sheet dates of the foreign subsidiaries and affiliated companies, except for common stock and capital surplus, which are translated at historical rates. Revenue and expense accounts are translated at the average exchange rates during the respective years. The resulting foreign currency translation adjustments are included in "Foreign currency translation adjustments" and "Non-controlling interests" in the net assets section of the accompanying consolidated balance sheets.

[14] Revenue Recognition

The percentage-of-completion method is applied to revenue from construction contracts of Aerospace division productions where certain elements are determinable with certainty at the end of fiscal year. (The percentage of completion is estimated using the proportion-of-cost method). The completed-contract method is applied to other works.

[15] Accounting for Lease Transactions

Sales and corresponding cost of sales under finance lease transactions conducted by certain domestic consolidated subsidiaries are recognized on the effective date of each lease contract.

[16] Derivative Financial Instruments and Hedge Accounting

The Japanese accounting standards for financial instruments require that the Company and its consolidated domestic subsidiaries state derivative financial instruments at their fair value and recognize changes in the fair value as a gain or loss, unless such derivative financial instruments are used for hedging purposes.

For interest rate swap contracts used as a hedge that meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed.

Derivative financial instruments qualifying as a hedge, along with the underlying transactions, assets and liabilities are as follows:

Financial Instrument	Transactions, assets and liabilities
Interest swaps	Borrowings

The risk exposures to movements in interest rates are hedged according to the Company's and its consolidated subsidiaries' risk management policy. An evaluation of hedge effectiveness is not considered necessary as the terms and notional amounts of these hedging instruments are the same as those of the underlying transactions, assets and liabilities, and therefore they are presumed to be highly effective in offsetting the effect of movements in interest rates at their inception as well as during their terms.

[17] Goodwill

Goodwill is principally amortized by the straight-line method over 5 years.

[18] Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and have negligible risk of changes in value due to their short maturities.

[19] Income Taxes

The provision for income taxes is computed based on the pretax income for financial reporting purposes. Deferred tax assets and liabilities are recognized for expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

[20] Research and Development Expenses

Research and development costs are expensed as incurred and amounted to 114,215 million yen (US\$ 1,017,959 thousand) and 102,373 million yen for fiscal years 2017 and 2016, respectively.

[21] Net Income per Share

Basic net income per share (EPS) is computed based on the average number of shares of common stock outstanding during each year. Diluted EPS assumes the potential dilution that occurs if all the convertible securities are converted or other contracts to issue common stock are exercised to the extent that they are not anti-dilutive.

[22] Reclassification

Certain reclassifications have been made in the consolidated financial statements for the year ended March 31, 2016 to conform to the presentation for the year ended March 31, 2017.

[23] Changes in Accounting Policy

Based on amendments in the CORPORATION Tax Act, "Practical Solution on a change in depreciation method due to Tax Reform 2016"(PITF No.32 issued on June 17, 2016) issued by Accounting Standards Board of Japan (ASBJ) was applied from the fiscal year ended on March 2017.

The company changed depreciation method for facilities attached to buildings and for structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method. Since the impact of the change is immaterial, notes for the change was omitted.

[24] Changes in Presentation

(Consolidated Statements of Income)

Consolidated Statements of Income for the fiscal year ended March 31, 2017 include the following reclassification.

"State subsidy", which was presented as a separate account in the prior fiscal year, is included in "Other, net" in the current fiscal year due to its decreased financial materiality. To reflect this change, 2,999 million yen of

"State subsidy" separately stated under "Other income(expense)" in the prior fiscal year has been reclassified into "Other, net" in the consolidated statements of income for the prior fiscal year provided herein.

"Loss on reduction of non-current assets" and "Loss on valuation of investment securities", which were presented as separate accounts in "Other income(expense)" in the prior fiscal year, are included in "Other, net" in the current fiscal year due to its decreased financial materiality.

To reflect these changes, 1,660 million yen of "Loss on reduction of non-current assets" and 5,387 million yen of "Loss on valuation of investment securities" have been reclassified into "Other, net".

As a result, the account "Other, net" in "Other income (expense)" in the prior fiscal year has been 15,097 million yen.

(Consolidated Statements of Cash Flows)

Consolidated Statements of Cash Flows for the fiscal year ended March 31, 2017 include the following reclassifications.

"Increase (decrease) in accrued expenses", which was included in "Other, net" under "Net cash provided by (used in) operating activities" in the prior fiscal year, is presented as a separate item in the current fiscal year due to its increased financial materiality.

In addition, "Other extraordinary income", which was presented as a separate item in "Net cash provided by (used in) operating activities", is included in "Other, net" in "Net cash provided by (used in) operating activities" in the current fiscal year due to its decreased financial materiality.

To reflect these changes, 15,538 million yen of "Other, net" under "Net cash provided by (used in) operating activities" in Consolidated Statements of Cash Flows in the prior fiscal year has been split into 11,792 million yen of "Increase (decrease) in accrued expenses" and 27,330 million yen of "Other, net".

19,656 million yen of "Other extraordinary income" has been reclassified into "Other, net".

As a result, "Other, net" in "Net cash provided by (used in) operating activities" is 7,674 million yen.

"Purchase of treasury shares", which was included in "Other, net" under "Net cash provided by (used in) financing activities" in the prior fiscal year, is presented as a separate item in the current fiscal year due to its increased financial materiality.

To reflect this change, 393 million yen of "Other, net" under "Net cash provided by (used in) financing activities" in the Consolidated Statements of Cash Flows" in the prior fiscal year, has been split into 20 million yen of "Purchase of treasury shares" and 373 million yen of "Other, net".

[25] Additional Information

The Company applied "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" issued by ASBJ from the fiscal year ended March 2017.

3. Other comprehensive income

Amounts reclassified to net income (loss) in fiscal 2017 and 2016, which were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Valuation difference on available-for-sale securities			
Increase(decrease) during the year	¥5,003	(¥8,513)	\$44,590
Reclassification adjustments	(9,572)	(2,288)	(85,312)
Before tax effect	(4,569)	(10,801)	(40,722)
Tax effect	1,324	4,159	11,800
Balance at the end of the period	(3,245)	(6,642)	(28,922)
Foreign currency translation adjustments			
Increase(decrease) during the year	(2,968)	(23,670)	(26,453)
Reclassification adjustments	-	(107)	-
Before tax effect	(2,968)	(23,777)	(26,453)
Tax effect	-	-	-
Balance at the end of the period	(2,968)	(23,777)	(26,453)
Remeasurements of defined benefit plans			
Increase(decrease) during the year	(109)	(3,648)	(971)
Reclassification adjustments	2,553	2,406	22,754
Before tax effect	2,444	(1,242)	21,783
Tax effect	(632)	50	(5,633)
Balance at the end of the period	1,812	(1,192)	16,150
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries			
Increase(decrease) during the year	1,595	1,548	14,216
Reclassification adjustments	-	-	-
Before tax effect	1,595	1,548	14,216
Tax effect	(611)	(541)	(5,446)
Balance at the end of the period	984	1,007	8,770
Share of other comprehensive income of affiliated companies accounted for using equity method			
Increase(decrease) during the year	(639)	(52)	(5,695)
Reclassification adjustments	(144)	-	(1,283)
Before tax effect	(783)	(52)	(6,978)
Tax effect	-	-	-
Balance at the end of the period	(783)	(52)	(6,978)
Total other comprehensive income(loss)	(¥4,200)	(¥30,656)	(\$37,433)

4. Additional Cash Flow Information

Cash and cash equivalents as of March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and deposits	¥658,822	¥507,553	\$5,871,854
Short-term investment securities	320,579	500,572	2,857,210
Sub-total	979,401	1,008,125	8,729,064
Less maturity over three months	(151,924)	(126,107)	(1,354,046)
Short-term investment securities excluding cash equivalents	(98,861)	(52,557)	(881,114)
Cash and cash equivalents	¥728,616	¥829,461	\$6,493,904

5. Financial Instruments

(1) Summary of Financial Instruments Status

[1] Action Policy with Regard to Financial Instruments

With regard to planned capital expenditure to support SUBARU CORPORATION, its consolidated subsidiaries and affiliated companies (the "SUBARU Group") in their main operations of automobile manufacturing and sales, the SUBARU Group finances mainly from bank loans. Temporary surpluses are invested in highly secure financial assets. Bank loans and liquidation of accounts receivable are utilized to provide short-term working capital. It is the SUBARU Group's policy to use derivatives as a way to avoid the risks stated below and not to conduct speculative transactions.

[2] Details of Financial Instruments and Respective Risks

Notes and accounts receivable-trade and Lease investment assets are subject to customer credit risks. In addition, operating receivables denominated in foreign currencies due to globalized business of the SUBARU Group are subject to the risk of changes in foreign exchange rates. As a general rule, however, forward foreign exchange contracts are utilized to hedge the foreign exchange rate risk, considering the net amount of operating receivables denominated in foreign currencies that exceed foreign currency denominated operating liabilities. Available-for-sale securities and investment securities are mainly stocks associated with business and capital alliances with principal business partners, and are subject to risk of market price fluctuation.

Majority of payables included in Notes and accounts payable-trade and Electronically recorded obligations-operating are due within one year. A certain portion of such liabilities involve foreign currency denominated transactions associated with the import of raw materials and is subject to exchange rate fluctuation risk, although it is consistently less than accounts receivable balance denominated in the same foreign currency. Funds financed by bank loans and corporate bonds are primarily used for capital expenditure, whose repayment or redemption dates will come within 7 years after March 31, 2017 at the latest. A certain portion of those liabilities may have variable interest rates and are subject to the risk of changes in interest rates, although such risk is mitigated using derivative transactions (interest rate swap transactions).

Derivative transactions include foreign exchange forward contracts to hedge against exchange rate fluctuations associated with trade accounts receivables and liabilities denominated in foreign currencies, and interest rate swap contracts to hedge against the risk of change in interest rates on bank loans. With regard to hedging instruments and hedged items, hedge policy, the method of evaluation of hedge effectiveness and other related items, please refer to "2-[15] Derivative Financial Instruments and Hedge Activities".

[3] Risk Management System with Regard to Financial Instruments

(a) Credit Risk management (Risks Associated with Business Partner's Breach of Contract)

The Company and its consolidated subsidiaries have credit control function and regularly monitor the financial status of key customers with regard to accounts receivables and lease investment assets. In addition to keeping track of payment due dates and balances of each customer, such credit control function identifies and mitigates the potential risk of uncollectibility due to deterioration in financial status or other factors of customers.

(b) Market Risk Management (Risks Associated with Fluctuations in Foreign Exchange and Interest Rates)

With regard to operating assets and liabilities denominated in foreign currencies, as a general rule, the Company uses foreign exchange forward contracts to hedge against risks of exchange rate fluctuation on a monthly basis by each currency. Depending on the status of exchange rates, foreign exchange forward contracts with no longer than six months term are used to hedge against the risk of exchange rate fluctuation to the extent that net position of accounts receivable and accounts payable dominated in foreign currency is exposed. In addition, the Company and certain consolidated subsidiaries use interest rate swap transactions to mitigate the risk of fluctuation in interest rates on bank loans and corporate bonds.

The Company also regularly monitors the market values of investments included in Short-term investment securities and Investment securities as well as the financial conditions of issuers (business partner companies), and continuously reviews its investment portfolio taking into consideration its relationships with respective business partner companies.

Basic policies with regard to derivative transactions are approved by the Executive Management Board. Finance & Accounting Department engages in derivative transactions in line with the applicable the Company's rule. The results of these transactions are reported to the Finance Officer every time the transactions are conducted.

(c) Liquidity Risk Management (Risk of Becoming Unable to Make Payments by the Due Date)

The Company secures liquidity at a level sufficient to satisfy its current needs with commitment lines contracted with major banks in combination with keeping cash and cash equivalents balance at a certain level.

[4] Supplemental Explanation of Items with Regard to Fair Value of Financial Instruments

Fair value of financial instruments includes quoted prices of financial instruments in the market and, in the event market prices are not available, prices that are calculated based on the underlying assumptions under the appropriate valuation model. Because the factors incorporated into the valuation model are subject to change, calculated fair value may differ. The values of derivative transactions contracts stated in "(2) Items with Regard to Fair Value of Financial Instruments" do not by themselves indicate the market risk associated with the respective derivative transactions.

(2) Items with Regard to Fair Value of Financial Instruments

The consolidated balance sheet amounts, the fair value and difference as of March 31, 2017 and 2016 were as follows:

The items whose fair values were extremely difficult to measure were not included in the table below (refer to Note [2]).

As of March 31, 2017

	Millions of yen		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	¥658,822	¥658,822	¥-
Notes and accounts receivable-trade	158,454		
Allowance for doubtful accounts (*1)	(88)		
	158,366	158,366	-
Lease investment assets	18,538		
Allowance for doubtful accounts (*1)	(21)		
	18,517	20,065	1,548
Short-term loans receivable	176,433		
Allowance for doubtful accounts (*1)	(250)		
	176,183	181,938	5,755
Short-term investment securities, Investment securities and Other securities	122,272	122,272	-
Total Assets	1,134,160	1,141,463	7,303
Notes and accounts payable-trade	349,737	349,737	-
Electronically recorded obligations-operating	92,098	92,098	-
Short-term loans payable	43,205	43,205	-
Current portion of long-term loans payable	44,443	44,442	1
Current portion of bonds	-	-	-
Accrued income taxes	13,858	13,858	-
Accrued expenses	221,328	221,328	-
Long-term loans payable	60,612	60,913	(301)
Total Liabilities	825,281	825,581	(300)
Derivative transactions (*2)			
hedge accounting is not applied	2,911	2,911	-
hedge accounting is applied	¥-	¥-	¥-

As of March 31, 2017

	Thousands of U.S. dollars		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	\$5,871,854	\$5,871,854	\$-
Notes and accounts receivable-trade	1,412,246		
Allowance for doubtful accounts (*1)	(784)		
	1,411,462	1,411,462	-
Lease investment assets	165,223		
Allowance for doubtful accounts (*1)	(188)		
	165,035	178,832	13,797
Short-term loans receivable	1,572,487		
Allowance for doubtful accounts (*1)	(2,228)		
	1,570,259	1,621,551	51,292
Short-term investment securities, Investment securities and Other securities	1,089,768	1,089,768	-
Total Assets	10,108,378	10,173,467	65,089
Notes and accounts payable-trade	3,117,086	3,117,086	-
Electronically recorded obligations-operating	820,838	820,838	-
Short-term loans payable	385,071	385,071	-
Current portion of long-term loans payable	396,105	396,096	9
Current portion of bonds	-	-	-
Accrued income taxes	123,512	123,512	-
Accrued expenses	1,972,620	1,972,620	-
Long-term loans payable	540,214	542,897	(2,683)
Total Liabilities	7,355,446	7,358,120	(2,674)
Derivative transactions (*2)			
hedge accounting is not applied	25,945	25,945	-
hedge accounting is applied	\$-	\$-	\$-

*1. Allowance for doubtful accounts corresponding to Notes and accounts receivable-trade, Lease investment assets and Short-term loans receivable is deducted.

*2. Indicated are the net amounts of assets and liabilities results from derivative transactions, with the total net liabilities indicated in ().

As of March 31, 2016

	Millions of yen		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	¥507,553	¥507,553	¥-
Notes and accounts receivable-trade	140,319		
Allowance for doubtful accounts (*1)	(105)		
	140,214	140,214	-
Lease investment assets	21,532		
Allowance for doubtful accounts (*1)	(53)		
	21,479	23,095	1,616
Short-term loans receivable	151,973		
Allowance for doubtful accounts (*1)	(294)		
	151,679	155,038	3,359
Short-term investment securities, Investment securities and Other securities	118,565	118,565	-
Total Assets	939,490	944,465	4,975
Notes and accounts payable-trade	326,625	326,625	-
Electronically recorded obligations-operating	91,476	91,476	-
Short-term loans payable	33,252	33,252	-
Current portion of long-term loans payable	33,692	33,807	(115)
Current portion of bonds	10,000	10,011	(11)
Accrued income taxes	100,272	100,272	-
Accrued expenses	132,759	132,759	-
Long-term loans payable	93,030	93,673	(643)
Total Liabilities	821,106	821,875	(769)
Derivative transactions (*2)			
hedge accounting is not applied	7,159	7,159	-
hedge accounting is applied	¥-	¥-	¥-

*1. Allowance for doubtful accounts corresponding to Notes and accounts receivable-trade, Lease investment assets and Short-term loans receivable is deducted.

*2. Indicated are the net amounts of assets and liabilities results from derivative transactions, with the total net liabilities indicated in ().

[1] The calculation methods of financial instrument fair value together with securities and derivative transactions

Assets

Cash and deposits and Notes and accounts receivable-trade

Because these are settled in the short-term, the fair value is mostly the same as the book value and as such the book value is deemed as fair value.

Lease investment assets and Short-term loans receivable

Fair value is the present value calculated by discounting relevant cash flows by each category of the assets and timing of cash flow, where discount rates were adopted taking into consideration the period until maturity and credit risks. In addition, the estimated residual value is included in the balance of Lease investment assets.

Short-term investment securities and investment securities

Fair value is determined by the stock exchange price, while bonds are determined by the stock exchange price or by quotations received from financial institutions. Please refer to the note entitled "6.Short-term investment securities and investment securities" regarding to respective objectives for holding securities.

Liabilities

Notes and accounts payable-trade, Short-term loans payable, Accrued income taxes and Accrued expenses

Because these are settled in the short-term, the fair value is mostly the same as the book value and as such the book value is deemed as fair value.

Current portion of long-term loans payable and Long-term loans payable

Fair value is measured based on the present value that is calculated as discounted cash flow of the total amount of principal and interest, where the interest would be set, if the Company concluded a brand new loan agreement with the same condition at the date of measurement.

Current portion of bonds

The fair value of bonds issued by the Company is based on market prices if available. For bonds with no available market price, fair value is calculated using the present value that is calculated as discounted cash flow of the total amount of principal and interest by, where discount rates are adopted taking into consideration the remaining redemption period and credit risks.

Derivative transactions

Fair value of interest rate swap that meets certain hedging criteria is included in the fair value of long-term debt as a hedged item.

[2] Financial instruments which fair value is extremely difficult to measure

Consolidated balance sheet amount as of March 31, 2017 and 2016:

Other securities (available-for-sale securities)	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Stocks of non-consolidated subsidiary and affiliated companies	¥1,232	¥2,817	\$10,980
Certificate of deposit	135,000	149,900	1,203,209
Commercial paper	42,499	172,996	378,779
Money management fund	104,218	135,119	928,859
Unlisted stocks (excluding over-the-counter stocks)	866	976	7,718
Medium Term Note	20,000	30,000	178,253
Other	3	3	27
Investments and other assets			
Investments in equity of affiliated companies and others	¥1,661	¥768	\$14,804

These have no available market prices and are expected to entail excessive costs in the estimation of future cash flows. Consequently, estimating their fair value is recognized as extremely difficult and they are not included in "Short-term investment securities, Investment securities and Other securities".

[3] Scheduled redemption of monetary assets and securities with maturity

As of March 31, 2017:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	¥658,822	¥-	¥-	¥-
Notes and accounts receivable-trade	145,641	12,813	-	-
Lease investment assets	6,136	12,393	9	-
Short-term loans receivable	73,229	101,058	2,146	-
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	10,574	17,959	5,080	3,594
Corporate bonds	8,270	25,433	4,939	4,265
Other	¥197,517	¥1,175	¥917	¥5,595

As of March 31, 2017:

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	\$5,871,854	\$-	\$-	\$-
Notes and accounts receivable-trade	1,298,048	114,198	-	-
Lease investment assets	54,688	110,455	80	-
Short-term loans receivable	652,665	900,695	19,127	-
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	94,242	160,062	45,276	32,032
Corporate bonds	73,708	226,676	44,020	38,012
Other	\$1,760,401	\$10,472	\$8,173	\$49,866

As of March 31, 2016:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	¥507,553	¥-	¥-	¥-
Notes and accounts receivable-trade	130,484	8,142	1,693	-
Lease investment assets	6,555	14,896	81	-
Short-term loans receivable	48,205	101,691	2,077	-
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	8,595	19,447	2,585	4,106
Corporate bonds	3,440	19,623	3,317	4,299
Other	¥353,419	¥1,006	¥1,056	¥4,189

[4] Amount of repayment for long-term debt and other interest-bearing debt
As of March 31, 2017:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Short-term loans payable	¥43,205	¥-	¥-	¥-
Bonds payable	-	-	-	-
Long-term loans payable	¥44,443	¥58,774	¥1,838	¥-

As of March 31, 2017:

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years
Short-term loans payable	\$385,071	\$-	\$-	\$-
Bonds payable	-	-	-	-
Long-term loans payable	\$396,105	\$523,832	\$16,382	\$-

As of March 31, 2016:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Short-term loans payable	¥33,252	¥-	¥-	¥-
Bonds payable	10,000	-	-	-
Long-term loans payable	¥33,692	¥90,918	¥2,112	¥-

6. Short-Term Investment Securities and Investment Securities

Information on the value of short-term investment securities and investment securities as of March 31, 2017 and 2016 was as follows:

(1) Other securities (available-for-sale securities):

As of March 31, 2017:

	Millions of yen		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	¥33,393	¥21,153	¥12,240
Debt securities			
Government and municipal bonds	17,369	17,259	110
Corporate bonds	21,851	21,694	157
Other	3,370	3,329	41
Sub-total	75,983	63,435	12,548
Book value not exceeding acquisition cost:			
Equity securities	1,062	3,566	(2,504)
Debt securities			
Government and municipal bonds	19,837	20,077	(240)
Corporate bonds	21,056	21,301	(245)
other	4,334	4,403	(69)
Sub-total	46,289	49,347	(3,058)
Total	¥122,272	¥112,782	¥9,490

As of March 31, 2017:

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	\$297,620	\$188,529	\$109,091
Debt securities			
Government and municipal bonds	154,804	153,824	980
Corporate bonds	194,750	193,351	1,399
Other	30,036	29,670	366
Sub-total	677,210	565,374	111,836
Book value not exceeding acquisition cost:			
Equity securities	9,465	31,783	(22,318)
Debt securities			
Government and municipal bonds	176,800	178,939	(2,139)
Corporate bonds	187,665	189,848	(2,183)
Other	38,627	39,242	(615)
Sub-total	412,557	439,812	(27,255)
Total	\$1,089,767	\$1,005,186	\$84,581

As of March 31, 2016:

	Millions of yen		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	¥39,363	¥22,386	¥16,977
Debt securities			
Government and municipal bonds	28,450	28,019	431
Corporate bonds	21,151	20,835	316
Other	5,307	5,229	78
Sub-total	94,271	76,469	17,802
Book value not exceeding acquisition cost:			
Equity securities	7,020	8,100	(1,080)
Debt securities			
Government and municipal bonds	6,282	6,336	(54)
Corporate bonds	9,527	9,670	(143)
Other	1,465	1,504	(39)
Sub-total	24,294	25,610	(1,316)
Total	¥118,565	¥102,079	¥16,486

(2) Other securities (available-for-sale securities) sold during fiscal years 2017 and 2016:

For the year ended March 31, 2017:

	Millions of yen		
	Sales amount	Total gains	Total losses
Equity securities	¥23,650	¥9,968	¥419
Debt securities			
Government and municipal bonds	28,576	128	219
Corporate bonds	9,586	45	45
Other	82,906	3	46
Total	¥144,718	¥10,144	¥729

For the year ended March 31, 2017:

	Thousands of U.S. dollars		
	Sales amount	Total gains	Total losses
Equity securities	\$210,784	\$88,841	\$3,734
Debt securities			
Government and municipal bonds	\$254,688	\$1,141	\$1,952
Corporate bonds	\$85,437	\$401	\$401
Other	\$738,913	\$27	\$410
Total	\$1,289,822	\$90,410	\$6,497

For the year ended March 31, 2016:

	Millions of yen		
	Sales amount	Total gains	Total losses
Equity securities	¥4,190	¥2,571	¥99
Debt securities			
Government and municipal bonds	27,456	115	143
Corporate bonds	38,575	43	43
Other	2,051	3	17
Total	¥72,272	¥2,732	¥302

7. Short-Term Loans Payable and Long-Term Debts

Short-term loans payable as of March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Bank loans with average interest rate of 1.40% and 1.48% per annum as of March 31, 2017 and 2016, respectively	¥43,205	¥33,252	\$385,071
Unsecured 0.71% bonds due June 13, 2016	¥-	¥10,000	\$-

Long-term debts as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Loans principally from banks and insurance companies due through 2024 with average interest rate of 0.51% and 0.7% per annum as of March 31, 2017 and 2016, respectively	¥105,055	¥126,722	\$936,319
Subtotal	105,055	126,722	936,319
Less-Portion due within one year	(44,443)	(33,692)	(396,105)
Total	¥60,612	¥93,030	\$540,214

Annual maturities of long-term loans payable and bonds payable as of March 31, 2017 were as follows:

	Millions of yen	Thousands of U.S. dollars
2018	¥44,443	\$396,105
2019	43,312	386,025
2020	7,473	66,604
2021	7,268	64,777
2022	721	6,426
2023 and thereafter	1,838	16,382
Total	¥105,055	\$936,319

Lease obligations as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2017	2016	2017
Lease obligations due within one year as of March 31, 2017	¥1,189	¥861	\$10,597
Lease obligations due after one year as of March 31, 2017	1,765	1,254	15,731
Total	¥2,954	¥2,115	\$26,328

Annual maturities of lease obligations as of March 31, 2017 were as follows:

	Millions of yen	Thousands of U.S. dollars
2018	¥1,189	\$10,597
2019	1,462	13,030
2020	139	1,239
2021	89	793
2022	55	490
2023 and thereafter	20	179
Total	¥2,954	\$26,328

The following assets as of March 31, 2017 and 2016 were pledged as collateral for certain loans:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Property, plant and equipment	¥32,520	¥36,799	\$289,840
Total	¥32,520	¥36,799	\$289,840

To raise working capital efficiently, the SUBARU Group has entered into the commitment-line contracts. The maximum amount that can be made available under these contracts is 210,330 million yen (US\$1,874,599 thousand) as of March 31, 2017. At the end of the fiscal year, there were no borrowings under the commitment line.

8. Derivative transactions

In the normal course of business, the Company and its consolidated subsidiaries employ derivative financial instruments, including foreign exchange forward contracts, foreign currency options and interest rate swaps, to manage their exposures to fluctuations in foreign currency exchange rates and interest rates. The Company and its consolidated subsidiaries do not use derivatives for speculative or trading purposes. The fair value information of derivative financial instruments as of March 31, 2017 and 2016 was as follows:

Derivative transactions to which hedge accounting is not applied

(1) Foreign currency contracts:

As of March 31, 2017

	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Fair value	Valuation gain (loss)	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:						
Sell-						
U.S. dollar	¥262,186	¥2,585	¥2,585	\$2,336,774	\$23,039	\$23,039
Euro	3,421	11	11	30,490	98	98
Canadian dollar	21,521	315	315	191,809	2,808	2,808
Total	¥287,128	¥2,911	¥2,911	\$2,559,073	\$25,945	\$25,945

As of March 31, 2016

	Millions of yen		
	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:			
Sell-			
U.S. dollar	¥287,156	¥7,975	¥7,975
Euro	3,254	(44)	(44)
Canadian dollar	22,516	(772)	(772)
Total	¥312,926	¥7,159	¥7,159

Note: The method to determine the fair value is based on quotations obtained from financial institutions.

Derivative transactions to which hedge accounting is applied

(1) Interest rate contracts:

Accounting treatment: Exception processing of interest rate swap

Hedge item: Long-term loans payable

As of March 31, 2017

	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Over 1 year Fair value		Notional Amount	Over 1 year Fair value	
Interest rate swap contracts:						
Receive floating rate pay fixed rate	¥1,000	¥-	(*)	\$8,913	\$-	(*)

As of March 31, 2016

	Millions of yen		
	Notional Amount	Over 1 year	Fair value
Interest rate swap contracts:			
Receive floating rate pay fixed rate	¥3,000	¥1,000	(*)

Note *Fair value of interest rate swap that meets certain hedging criteria is included in the fair value of long-term debt as a hedged item.

9. Property, Plant and Equipment

Property, plant and equipment as of March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Buildings and structures	¥407,758	¥381,255	\$3,634,207
Machinery, equipment and vehicles	603,416	540,376	5,378,039
Vehicles and equipment on operating leases	15,391	11,221	137,175
Other	354,599	312,029	3,160,419
Subtotal	1,381,164	1,244,881	12,309,840
Land	195,783	193,698	1,744,947
Construction in progress	45,416	46,951	404,777
Accumulated depreciation	(937,015)	(886,905)	(8,351,292)
Accumulated impairment loss	(28,083)	(25,992)	(250,294)
Total	¥657,265	¥572,633	\$5,857,977

10. Unexecuted Balance of Overdraft Facilities and Lending Commitments

The unexecuted balance of overdraft facilities and lending commitments at a consolidated subsidiary (Subaru Finance Co., Ltd.) as of March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total overdraft facilities and lending commitments	¥4,800	¥4,800	\$42,781
Less amounts currently executed	1,263	801	11,257
Unexecuted balance	¥3,537	¥3,999	\$31,524

A portion of the overdraft facilities and lending commitments above is subject to credit considerations as documented in the customer contracts. Therefore, the total balance above is not always available.

11. Pension and Severance Plans

The Company and its consolidated domestic subsidiaries have lump-sum retirement payment plans, contributory defined benefit employees' welfare pension funds, defined benefit pension plan, and certain domestic subsidiaries have defined contribution pension plans. In addition, in certain occasions, additional retirement payments are made to employees for their retirement. Consolidated foreign subsidiaries primarily have defined contribution plans.

As of March 31, 2017, the Company and 54 of its consolidated domestic subsidiaries, which add up to a total of 55 companies, have lump-sum retirement payment plans. Within the SUBARU Group, there are also 25 defined contribution plans, and 6 defined benefits pension plans. In addition, there are 3 single-employer employees' welfare pension funds subject to the provisions of Article 33 of "Accounting Standard for Retirement Benefits."

Certain insignificant consolidated subsidiaries calculated their pension liability using the simplified method. Under the simplified method, an accrued pension and net defined benefit liability is provided at the amount that would have been payable had all the employees voluntarily retired at the end of the fiscal year, less an amount to be covered from the plan assets, while the Company and significant subsidiaries provide an accrued pension and net defined benefit liability based on the estimated amount of pension and severance obligation (projected benefit obligations), less the fair value of plan assets at the end of the fiscal year under the actuarial method.

Defined benefit pension plans (including the multi-employer pension plan of contributory defined benefit employees' welfare pension funds settled as defined benefit pension plan.)

Movement in retirement benefit obligation, except plans applied simplified method

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Balance at the beginning of the period	¥116,331	¥107,397	\$1,036,818
a. Service cost	6,752	6,115	60,178
b. Interest cost	679	1,161	6,052
c. Actuarial loss (gain)	(3,149)	7,769	(28,066)
d. Benefits paid	(4,373)	(5,791)	(38,975)
e. Amortization of prior service cost	(15)	152	(134)
f. Other	(526)	(472)	(4,688)
Balance at the end of the period	¥115,699	¥116,331	\$1,031,185

Movements in plan assets, except plans applied simplified method

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Balance at the beginning of the period	¥105,917	¥99,140	\$944,002
a. Expected return on plan assets	1,953	1,836	17,406
b. Actuarial loss (gain)	(3,258)	4,254	(29,037)
c. Contributions paid by the employer	3,290	4,288	29,323
d. Payment for retirement benefits	(2,886)	(3,601)	(25,722)
e. Other	(188)	-	(1,676)
Balance at the end of the period	¥104,828	¥105,917	\$934,296

Movement in net defined benefit liability in the plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the period	¥6,398	¥6,072	\$57,023
a. Retirement benefit cost	841	722	7,496
b. Benefits paid	(383)	(357)	(3,414)
c. Contributions paid by the employer	(43)	(39)	(383)
Balance at the end of the period	¥6,813	¥6,398	\$60,722

Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset), include plans applied simplified method

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
a. Funded retirement benefit obligations	¥105,901	¥106,762	\$943,859
b. Plan assets	(105,157)	(106,162)	(937,228)
Sub total	744	600	6,631
c. Unfunded retirement benefit obligations	16,940	16,212	150,980
a+b+c. Total Net liability (asset) for retirement benefits	17,684	16,812	157,611
d. Net defined benefit liability	18,615	18,586	165,909
e. Net defined benefit asset	(931)	(1,774)	(8,298)
d+e. Total Net liability (asset) for retirement benefits	¥17,684	¥16,812	\$157,611

Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
a. Service cost	¥6,752	¥6,115	\$60,178
b. Interest cost	679	1,161	6,052
c. Expected return on plan assets	(1,953)	(1,836)	(17,406)
d. Net actuarial loss amortization	2,560	2,346	22,816
e. Past service costs amortization	(6)	60	(53)
f. Additional retirement payments	225	215	2,005
g. Retirement benefit cost of the plan applying the simplified method	841	722	7,496
h. Other	(149)	22	(1,329)
Total retirement benefit costs for the fiscal year ended	¥8,949	¥8,805	\$79,759

Adjustments for retirement benefit (before tax effect)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
a. Past service costs	¥21	(¥92)	\$187
b. Actuarial gains and losses	(2,465)	(1,150)	(21,970)
Total	(¥2,444)	(¥1,242)	(\$21,783)

Accumulated adjustments for retirement benefit (before tax effect)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
a. Past service costs that are yet to be recognized	¥267	¥246	\$2,380
b. Actuarial gains and losses that are yet to be recognized	15,498	17,963	138,128
Total	¥15,765	¥18,209	\$140,508

Plan assets

Plan assets comprise:

	Percentage	
	2017	2016
a. Bonds	47%	49%
b. Equity securities	16%	13%
c. Cash and deposit	28%	28%
d. Other	9%	10%
Total	100%	100%

Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

Actuarial assumptions

The principal actuarial assumptions

	2017	2016
a. Attribution of expected benefit obligation	Benefit formula method	Benefit formula method
b. Discount rate	Primarily 0.7%	Primarily 0.6%
c. Long-term expected rate of return	Primarily 2.1%	Primarily 2.1%
d. Amortization of actuarial gain/loss	Primarily 16 years (amortized by the straight-line method starting from the following fiscal year, over a period shorter than the average remaining service periods of the eligible employees)	Primarily 16 years (amortized by the straight-line method starting from the following fiscal year, over a period shorter than the average remaining service periods of the eligible employees)
e. Amortization of past service cost	13 to 18 years	10 to 19 years

Defined contribution pension plan

The amount required to contribute to defined contribution plans was 4,698 million yen (US\$41,872 thousand) and 4,844 million yen for the fiscal years 2017 and 2016, respectively, which included the multi-employer pension plan of contributory defined benefit employees' welfare pension funds settled as defined contribution plans.

Certain information concerning the multi-employer pension plan, which requires contributions that are expensed as they become due as pension and severance costs, was as follows:

(1) Overall funded status of the multi-employer pension plan (mainly as of March 31, 2017 and 2016)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Plan assets	¥10,660	¥49,530	\$95,009
Projected benefit obligation	11,320	58,015	100,891
Funded status	(¥660)	(¥8,485)	(\$5,882)

(2) Contributions by the Company and its consolidated domestic subsidiaries as a percentage of total contributions to the multi-employer pension plan for fiscal years 2017 and 2016 were 4% and 6% respectively.

Other than the above, 27,795 million yen (US\$247,727 thousand) and 26,943 million yen of postretirement benefit plan obligation for fiscal years 2017 and 2016 respectively is included in "Other" of accrued expense and long-term liabilities in some U.S. subsidiaries.

12. Income Taxes

The Company and its consolidated subsidiaries were subject to a number of taxes based on income, which in the aggregate resulted in a normal statutory income tax rate of approximately 30.7% and 32.9% for fiscal years 2017 and 2016, respectively.

A reconciliation of the statutory income tax rates in Japan to the Company's effective income tax rates for fiscal years 2017 and 2016 were as follows:

	2017	2016
Statutory income tax rate in Japan	30.7%	32.9%
Increase (reduction) in taxes resulting from:		
Difference of applicable tax rate in subsidiaries	2.4%	0.6%
Adjustment of deferred tax assets in the end of fiscal year 2016 by change of the tax rate	-	0.5%
Entertainment expenses not qualifying for deduction	0.1%	0.1%
Changes in valuation allowance and tax benefits realized from loss carry forwards	0.0%	(1.9)%
Deduction of research and development expense	(4.7)%	(3.1)%
Other	(0.3)%	0.4%
Effective income tax rate	28.2%	29.5%

Significant components of the deferred tax assets and liabilities as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017

Deferred tax assets:			
Accrued expenses	¥53,348	¥28,427	\$475,472
Unrealized profit on inventories	22,748	24,451	202,745
Provision for product warranties	19,875	17,324	177,139
Net defined benefit liability	15,082	14,173	134,421
Depreciation and amortization expenses	11,307	10,554	100,775
Long-term accounts payable-other	10,858	10,593	96,774
Provision for bonuses	7,493	7,456	66,783
Loss on valuation of inventories	2,247	3,230	20,027
Other	21,300	25,089	189,839
Total deferred tax assets	164,258	141,297	1,463,975
Valuation allowance	(8,778)	(8,714)	(78,235)
Total deferred tax assets, net of valuation allowance	155,480	132,583	1,385,740
Deferred tax liabilities:			
Deferred revenue of foreign consolidated subsidiaries	(26,494)	(22,045)	(236,132)
Depreciation and amortization expenses	(22,466)	(14,167)	(200,232)
Valuation difference on available-for-sale securities	(2,354)	(4,280)	(20,980)
Reserve for reduction entry	(1,770)	(1,862)	(15,775)
Net defined benefit asset	(932)	(966)	(8,307)
Other	(744)	(800)	(6,631)
Total deferred tax liabilities	(54,760)	(44,120)	(488,057)
Net deferred tax assets	¥100,720	¥88,463	\$897,683

The net deferred tax assets are included in the following line items in the accompanying consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets—Deferred tax assets	¥109,600	¥90,893	\$976,827
Investments and other assets—Deferred tax assets	20,922	16,339	186,471
Current liabilities—Deferred tax liabilities (Other current liabilities)			
Long-term liabilities—Deferred tax liabilities	(29,802)	(18,769)	(265,615)
Total net deferred tax assets	¥100,720	¥88,463	\$897,683

13. Net Assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of its Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Companies Act (“the Act”), in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Act, both legal earnings reserve and additional paid-in capital used to eliminate or reduce a

deficit generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Act, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act.

At the annual shareholders' meeting held on June 23, 2017, the shareholders approved cash dividends amounting to 55,230 million yen (US\$492,246 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2017. Such appropriations are recognized in the period in which they are approved by the shareholders.

14. Presentation of inventories and provision for loss on construction contracts

"Provision for loss on construction contracts" included in "Cost of sales" for the fiscal years 2017 and 2016 is reversal of 579 million yen (US\$ 5,160 thousand) and provision of 644 million yen, respectively.

15. Selling, General and Administrative Expenses

Selling, general and administrative expenses for fiscal years 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Freightage and packing expenses	¥27,813	¥27,023	\$247,888
Advertising expenses	80,780	87,666	719,964
Sales incentives	137,209	98,505	1,222,897
Salaries and bonuses	55,123	54,008	491,292
Research and development expenses	113,490	101,499	1,011,497
Other	114,501	110,832	1,020,509
Total	528,916	¥479,533	\$4,714,047

16. Extraordinary income

(Fiscal 2016)

Reversal of allowance for doubtful accounts

Reversal of allowance for doubtful account includes 29,624 million yen of the allowance for receivables of the initial investment fees associated with the AH-64D combat helicopter for the Japan Ministry of Defense was released because the lawsuit against the Government of Japan over the claims of the initial investment fees was concluded.

Other extraordinary income

Other extraordinary income includes 18,561 million yen of interest receivable recognized due to the conclusion of the lawsuit against the Government of Japan over the claims of the initial investment fees associated with the AH-64D combat helicopter for the Japan Ministry of Defense.

17. Extraordinary loss

(Fiscal 2017)

Loss on business liquidation

The loss was recognized due to the decision to liquidate the Industrial Products business on November 2, 2016. The loss consists of 2,524 million yen (US\$22,496 thousand) of loss on fixed assets, 2,127 million yen (US\$18,957 thousand) on inventory valuation, and 471 million yen (US\$4,198 thousand) on others. The loss on fixed assets above includes impairment losses on the following assets.

Use	Location	Category	Impairment loss (millions of yen)
Production facilities	Kitamoto City Saitama Prefecture and other locations	Machinery, equipment and vehicles	1,201

Production facilities that impairment losses are recognized on are grouped together with assets owned mainly by the Industrial Products business for impairment recognition and measurement purposes.

Due to the decision to discontinue properties were recognized as follows the Industrial Products business, it is expected that future cash flows would fall below book values of related facilities, the book values of those assets were written down to the recoverable amounts accordingly.

As a result, 1,201 million yen (US\$10,704 thousand) of impairment losses were recognized and presented in Loss on business liquidation in the quarterly consolidated statements of income.

The recoverable amounts are measured at value in use, calculated based on future cash flows discounted principally at 10.30%.

Impairment loss

In addition to the impairment loss on production facilities referred to above, impairment losses on rental properties were recognized as follows:

Use	Location	Category	Impairment loss (millions of yen)
Rental properties	Konan City Shiga Prefecture	Land	1,175
		Other	10

Grouping unit for recognition and measurement of impairment loss is defined by each property for lease.

Due to the declining profitability and significant decline in market value, it is expected that future cash flows would fall below book values of those properties, the book values of those properties were written down to the recoverable amounts accordingly.

As a result, 1,185 million yen (US\$10,561 thousand) of impairment losses were recognized.

The recoverable amounts are measured at net realizable value, calculated based on real estate appraisal value.

18. Finance Leases

As allowed under the Japanese accounting standards, the Company and its consolidated subsidiaries in Japan account for finance leases.

Information as Lessor

(1) The details of lease investment assets as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Lease revenue receivable	¥22,210	¥25,716	\$197,950
Estimated residual value	386	363	3,440
Interest income portion	(4,058)	(4,547)	(36,167)
Lease investment assets	¥18,538	¥21,532	\$165,223

(2) Lease revenue related to lease investment assets

Amounts of collections on lease receivable after the fiscal year ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Within 1 year	¥7,355	¥7,878	\$65,553
1 to 2 years	6,022	6,804	53,672
2 to 3 years	4,590	5,374	40,909
3 to 4 years	2,638	3,705	23,512
4 to 5 years	1,594	1,851	14,207
Over 5 years	¥11	¥104	\$98

19. Operating Lease Information as Lessee

The future minimum lease/rent payments, excluding the portion of interest thereon, as of March 31, 2017 and 2016, were as follows:

			Thousands of
	Millions of yen	2016	U.S. dollars
	2017		2017
Operating leases:			
Due within one year	¥3,490	¥2,937	\$31,105
Due after one year	17,101	20,570	152,415
Total	¥20,591	¥23,507	\$183,520

Information as Lessor

The future minimum lease/rent payments receivable, excluding the portion of interest thereon, as of March 31, 2017 and 2016, were as follows:

			Thousands of
	Millions of yen	2016	U.S. dollars
	2017		2017
Operating leases:			
Due within one year	¥137	¥158	\$1,221
Due after one year	72	74	642
Total	¥209	¥232	\$1,863

20. Contingent Liabilities

Contingent liabilities as of March 31, 2017 and 2016, were as follows:

			Thousands of
	Millions of yen	2016	U.S. dollars
	2017		2017
As guarantor of third-party indebtedness from financial institutions	¥28,555	¥44,059	\$254,501

(Fiscal 2016)

Expenses with regard to the modified agreement contents between the U.S. subsidiary of Takata Co., Ltd. and NHTSA (The National Highway Traffic and Safety Administration of the United States) dated May 4, 2016, Notification "Extended schedule of the recalls of airbag inflators manufactured by Takata Co., Ltd." released by MLIT (The Ministry of Land, Infrastructure, Transport and Tourism of Japan) dated May 27, 2016, and recalls in the other regions including China and Australia required by the U.S. and Japanese authorities are not accrued in the consolidated financial statements for the fiscal year ended March 31, 2016, since the amounts of these expenses can not be estimated reasonably at present.

Expenses with regard to recall of airbag inflators manufactured by Takata Co., Ltd. which can be reasonably estimated were accrued in the consolidated financial statements for the fiscal year ended March 31, 2016.

SUBARU group notified the regulators to take corresponding actions in North American Market on May 25, 2016 and decided to do it in Japan and the other regions including China and Australia by the end of June 2016, that cover a part of contingent liabilities mentioned above.

(Fiscal 2017)

Expenses with regard to the modified agreement contents between the U.S. subsidiary of Takata Co., Ltd. and NHTSA (The National Highway Traffic and Safety Administration of the United States) dated May 4, 2016, Notification "Extended schedule of the recalls of airbag inflators manufactured by Takata Co., Ltd." released by MLIT (The Ministry of Land, Infrastructure, Transport and Tourism of Japan) dated May 27, 2016, and recalls in the other regions including China and Australia required by the U.S. and Japanese authorities are accrued to the extent that the amount can be reasonably estimated in the consolidated financial statements for the fiscal year ended March 31, 2017.

There is a possibility that additional expense may be accrued required due to events in the future.

21. The Amount of Discount of Export Bill

The amount of discount of export bill as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
The amount of discount of export bill	¥1,210	¥1,718	\$10,784

22. Transfer of Financial Assets to Special Purpose Company

The balance of financial assets transferred to special purpose company as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Balance of financial assets transferred to special purpose company (loan receivable of Automobiles and accounts receivable-trade of Aerospace)	¥4,488	¥4,508	\$40,000

23. Segment Information

(1) Outline of business segment

The business segments the Company reports are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine distribution of management resources and evaluate their business result.

The Company recognizes Automobile as its main business, and introduces an internal company system and recognizes Aerospace, and Other divisions. This framework makes clearer the responsibility of each division and accelerates business execution. The Company manages the subsidiaries on the basis of this classification. Therefore, the business segments consist of Automobile, Aerospace, and Other which does not belong to Automobile nor Aerospace.

Automobile segment manufactures and sells vehicles and related products. Aerospace segment manufactures aircrafts, parts of space-related devices.

(Changes in reporting segments)

"Industrial Products", which had been formerly reported as a single segment, is included in "Other" segment from the fiscal year ended March 2017 due to the decision to liquidate the Industrial Products business at the Board of Directors meeting held on November 2, 2016.

Segment information for the twelve months period ended March 31, 2016 is presented in conformity with the change.

(2) Calculation method of sales, profit or loss, assets, liabilities and other items by reportable segments

Accounting method for reportable segments is almost the same as "2. Summary of Significant Accounting Policies".

Segment incomes are calculated based on operating income.

Net sales - Inter-segment are calculated based on current market prices.

(3) Information on sales, income, assets and other items by reportable segments for the fiscal years ended March 31, 2017 and 2016 was summarized as follows

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net Sales:			
Automobiles			
Outside customers	¥3,151,961	¥3,039,424	\$28,092,344
Inter-segment	4,720	4,752	42,068
Sub-total	3,156,681	3,044,176	28,134,412
Aerospace			
Outside customers	138,759	152,786	1,236,711
Inter-segment	-	-	-
Sub-total	138,759	152,786	1,236,711
Other (*1)			
Outside customers	35,272	40,048	314,367
Inter-segment	23,785	17,850	211,988
Sub-total	59,057	57,898	526,355
Total	3,354,497	3,254,860	29,897,478
Adjustment (*2)	(28,505)	(22,602)	(254,056)
Consolidated total	¥3,325,992	¥3,232,258	\$29,643,422

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Segment income:			
Automobiles	¥397,657	¥543,609	\$3,544,180
Aerospace	9,102	18,201	81,123
Other (*1)	3,512	2,998	31,301
Total	410,271	564,808	3,656,604
Adjustment (*2)	539	781	4,804
Consolidated total (*3)	¥410,810	¥565,589	\$3,661,408

Segment assets:			Thousands of
		Millions of yen	U.S. dollars
	2017	2016	2017
Automobiles	¥2,477,309	¥2,298,942	\$22,079,403
Aerospace	223,148	220,786	1,988,841
Other (*1)	87,484	97,376	779,715
Total	2,787,941	2,617,104	24,847,959
Adjustment (*2)	(25,620)	(24,694)	(228,342)
Consolidated total	¥2,762,321	¥2,592,410	\$24,619,617

Other Items:			Thousands of
		Millions of yen	U.S. dollars
	2017	2016	2017
Depreciation and amortization:			
Automobiles	¥80,058	¥67,229	\$713,529
Aerospace	3,663	3,668	32,647
Other (*1)	1,932	2,041	17,220
Total	85,653	72,938	763,396
Adjustment (*2)	-	-	-
Consolidated total	85,653	72,938	763,396
Investment to equity-method affiliates:			
Automobiles	1,467	711	13,075
Aerospace	-	-	-
Other (*1)	-	768	-
Total	1,467	1,479	13,075
Adjustment (*2)	-	-	-
Consolidated total	1,467	1,479	13,075
Increase of property, plant and equipment and intangible assets:			
Automobiles	180,469	160,048	1,608,458
Aerospace	14,699	6,902	131,007
Other (*1)	1,448	1,388	12,906
Total	196,616	168,338	1,752,371
Adjustment (*2)	-	-	-
Consolidated total	¥196,616	¥168,338	\$1,752,371

Note: *1. Other means the category which is not included into any business segment reported. It consists of Industrial product, real estate lease, etc.

*2. Adjustment of segment income refers to elimination of intersegment transaction.

*3. Segment income is adjusted on operating income on the consolidated statements of income.

Related Information

(1) Products and services information

Products and services information is omitted since the same information is in the segment information

(2) Information about geographic areas

[1] Sales for the fiscal years ended March 31, 2017 and 2016 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Sales: (*1)			
Japan	¥650,343	¥605,401	\$5,796,283
North America	2,192,260	2,104,498	19,538,859
[United States] (*2)	[2,056,176]	[1,972,797]	[18,325,989]
Europe	112,602	126,201	1,003,583
Asia	211,325	237,297	1,883,467
Other	159,462	158,861	1,421,230
Consolidated total	¥3,325,992	¥3,232,258	\$29,643,422

Note: *1 Sales is categorized by country or area which is based on customer location.

*2 Sales of the United States is included in North America area.

[2] Property, plant and equipment for the fiscal years ended March 31, 2017 and 2016 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Property, plant and equipment: (*1)			
Japan	¥489,383	¥440,019	\$4,361,702
North America	166,665	131,654	1,485,428
[United States] (*2)	[165,877]	[130,978]	[1,478,405]
Europe	425	462	3,788
Other	792	498	7,059
Consolidated total	¥657,265	¥572,633	\$5,857,977

Note: *1 Property, plant and equipment is categorized by country or area according to geographic adjacent level.

*2 Property, plant and equipment of the United States is included in North America area.

[3] Major customers Information

Information about major customers is omitted because there were no outside sales to single customer with equal to or more than 10% of Net sales on the consolidated statements of income for the fiscal years ended March 31, 2017 and 2016

Information on Impairment Loss in Fixed Assets by Reportable segments

Impairment loss in fixed assets by reportable segments for the fiscal years ended March 31, 2017 and 2016 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Impairment loss in fixed assets:			
Automobiles	¥3	¥11	\$27
Aerospace	-	-	-
Other	2,386	-	21,265
Total	2,389	11	21,292
Adjustment	-	-	-
Total	¥2,389	¥11	\$21,292

“Other” represents the business segments which are not included in any reportable business segments. It includes, Industrial products and Real estate lease, and other.

Information on Amortization of Goodwill and Unamortized Balance by Reportable segments

Information on amortization of goodwill and unamortized balance by reportable segments for the fiscal years ended March 31, 2017 and 2016 was summarized as follows:

Goodwill

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Amount written off of current period:			
Automobiles	¥206	¥241	\$1,836
Aerospace	-	-	-
Other	-	-	-
Total	206	241	1,836
Corporate and elimination	-	-	-
Total	206	241	1,836
Balance at the end of current period:			
Automobiles	1,867	2,090	16,640
Aerospace	-	-	-
Other	-	-	-
Total	1,867	2,090	16,640
Corporate and elimination	-	-	-
Total	¥1,867	¥2,090	\$16,640

Information on Negative Goodwill by Reportable segments

No items to be reported.

24. Fair Value of Investment and Rental Property

The Company and certain consolidated subsidiaries own rental office buildings and rental commercial facilities with the objective of generating rental income in Saitama prefecture and other locations. Certain domestic rental office buildings in Japan are classified as properties that include portions used as investment and rental property, because part of them are used by the Company and certain consolidated subsidiaries.

The consolidated balance sheet amounts, principal changes during fiscal 2017 and 2016, and fair value at the end of fiscal 2017 and 2016 were as follows:

As of March 31, 2017

	Consolidated balance sheet amounts			Millions of yen
	beginning balance	Increase(decrease) during the year	ending balance	Fair value as the end of the fiscal year
Investment and rental property	¥29,243	(¥2,207)	¥27,036	¥40,819
Properties that include portions used as investment and rental property	¥14,495	(¥783)	¥13,712	¥21,490

As of March 31, 2017

	Consolidated balance sheet amounts			Thousands of U.S. dollars
	beginning balance	Increase(decrease) during the year	ending balance	Fair value as the end of the fiscal year
Investment and rental property	\$260,633	(\$19,670)	\$240,963	\$363,806
Properties that include portions used as investment and rental property	\$129,189	(\$6,979)	\$122,210	\$191,533

As of March 31, 2016

	Consolidated balance sheet amounts			Millions of yen
	beginning balance	Increase(decrease) during the year	ending balance	Fair value as the end of the fiscal year
Investment and rental property	¥29,248	(¥5)	¥29,243	¥40,173
Properties that include portions used as investment and rental property	¥15,228	(¥733)	¥14,495	¥22,775

Note 1. The amounts of consolidated balance sheet excludes accumulated depreciation and accumulated impairment loss from acquisition costs.

2. Among changes in the amount of investment and rental property and properties that include portions used as investment and rental property during the fiscal 2017, principal increases were 1,337 million yen (US\$11,916 thousand) of properties acquisitions, and principal decreases were 1,071 million yen (US\$9,545 thousand) of depreciation, 1,203 million yen (US\$10,722 thousand) of impairment losses, 568 million yen (US\$5,062 thousand) of loss on sales and retirement, 928 million yen (US\$8,271 thousand) of end of contracts, and 543 million yen (US\$4,840 thousand) of other decreases.

Among changes in the amount of investment and rental property and properties that include portions used as investment and rental property during the fiscal 2016, principal increases were 622 million yen

(US\$5,520 thousand) of properties acquisitions, and principal decreases were 1,264 million yen (US\$11,217 thousand) of depreciation, and 265 million yen (US\$2,352 thousand) of loss on sale and retirement.

3. Fair value of a part of main investment and rental property is the amount estimated by based value of real-estate appraiser, and fair value of a part of other investment and rental property is the amount estimated by the Company based principally on land assessment value.

Profit and loss in fiscal 2017 and 2016 from investment and rental property and properties that include portions used as investment and rental property were as follows:

As of March 31, 2017

	Millions of yen			
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	¥3,909	¥2,059	¥1,850	(¥1,133)
Properties that include portions used as investment and rental property	¥775	¥1,224	(¥449)	¥-

As of March 31, 2017

	Thousands of U.S. dollars			
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	\$34,840	\$18,351	\$16,489	(\$10,098)
Properties that include portions used as investment and rental property	\$6,907	\$10,909	(\$4,002)	\$-

As of March 31, 2016

	Millions of yen			
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	¥3,862	¥2,344	¥1,518	(¥262)
Properties that include portions used as investment and rental property	¥855	¥1,077	(¥222)	¥-

Note:1. Rental income (from the properties that include portions used as investment and rental property) does not include the portion that the Company or certain subsidiaries use as the provision of services and business administration purposes. Rental expenses, however, include all portions of the expenses (costs related to depreciation, repairs, insurance and taxes).

2. Other profit and loss include in gain on sale and impairment loss.

25. Subsequent Events

No items to be reported.

26. Other

No items to be reported.

Independent Auditor's Report

To the Board of Directors of SUBARU CORPORATION:

We have audited the accompanying consolidated financial statements of SUBARU CORPORATION, and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SUBARU CORPORATION, and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 26, 2017
Tokyo, Japan